A
WORLD IN DEBT

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BY

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A LETTER

To John J. Fox, Esq.,
Berkeley, California.

My dear John:

You ask me how I came to write this book. I think there is a little malice in that question, because I can distinctly remember saying to you on more than one occasion that I felt that the world did not stand in need of many more books, or many more writers of books, for a good many years, and perhaps for a good many centuries, to come. And yet, I have written a book. I grant this strange conduct needs an explanation.

Well, I beg you to remember that, back in 1927 and 1928, when the world was in a tornado of prosperity of the paper persuasion, I also said something else to you. I said that this thing had happened before, many times; and that invariably it had also happened that the balloon was pricked, and deflation followed; that the inevitable penalty for a boom was a crash; that whatever political party happened to be in power when the smash arrived, would be the object of loathing and contempt; and that for several ensuing years the disillusioned populace would be so busy pitying themselves that they would become the victims of every impostor and imposture that effrontery and ignorance could contrive and present. And, indeed, all this came to pass; but I could not pretend to be very wise about my prediction; for any man who had read history, and had managed to keep himself a little aloof from

the maddened crowd, could have said the same: and no doubt many did.

He is but a mean man who takes more than a transient pleasure in successfully prophesying a catastrophe (though Lucretius intimates that no man is above a touch of such vanity); so, after a grim smile at the unhorsed cavalry of commerce—those mounted captains of industry and exploitation who had been accustomed to saddle and spur just long enough to forget what one does with feet; and after a sincere ejaculation of pity for the wretched hoplites, washerwomen and sutlers who had ignorantly pawned their valuables to follow such leaders toward the promised land of Something-for-Nothing—I began to speculate upon the principles that must lie behind such feast and such famine, such weal and such woe, such quondam luxury and such present misery. For there must be, I considered (if one could find them), very definite rules that produce, from the identical causes, identical results over two thousand years of written history. And that this unending procession from boom to crash and from crash to boom is one of the most constant of the phenomena associated with social man, we have sufficient testimony. I therefore began to inquire into the nature of this phenomenon, to see if I could trace out a cause that would survive the scrutiny of the scientific method.

In my inquiry, I began most humbly. I first went to great masters of commerce, the bankers, the enterprisers, the geniuses who had been directing the planets and had all but partitioned and capitalized the universe. What did they think of it? God wot what they thought of it, my friend, for all I could get out of them was that something terrible had happened

(which I already knew); that it must have been the war; that it was necessary to keep a stiff upper lip (and their lips trembled like tripe as they said this); and that the late J. Pierpont Morgan, Senior, had said that only a fool would sell the United States short. In the next stage I learned that the stock market was not really going down—it was just traveling along at the bottom of a U. If this was indeed true, the distance between the uprights of the U became so great that it was impossible to see them both at the same time.

Not to enlarge on the asininity of the slogans that were mouthed by these frightened gentlemen—whose efforts to remain pompous were as ridiculous as those of an archbishop who has stepped on a banana peel—I came away from them convinced that they were mainly windbags and poltroons, and that most of them possessed an attitude toward life curiously like that of a pickpocket. Not only had they no idea as to what had caused the "depression," but they were not inclined to care, if only they could devise some way to repair their own fortunes and achieve another following of dupes. But, for the little, ignorant, patient, plodding, unpretending man of petty business, meeting his own fears with courage, meeting his bills if he could, dazed but hopeful and industrious—for this man I found nothing but admiration. He could tell me nothing, because he knew even less than I; but I could see plainly that when the world is plunged into the abyss every so often by the giants of finance, it must be pulled out by these pigmies, whilst the Goliaths sit by and weep over their own bruises.

Then I turned to the economists—the political economists. Lord save us, my friend! what shall I say of the economists? What can anyone say of the economists? Nerissa asked of

Portia, "How say you by the French lord, Monsieur Le Bon?" Portia replied, "God made him, and let him therefore pass for a man." As to economists, let us not be outdone in benevolence by Portia: they are undoubtedly as they were intended to be: but for any adequate explanation of the difficulties and dangers that beset our industrial economy and the fortunes of those who exist within it, you may as well consult the Great Pyramid. Diligently I have perused the modern economists, but I frankly confess that I now know neither what political economy is nor what the economists pretend to teach. If the professors of this alleged science really have any definite notions translatable into practise, it would seem a ripe time to expose them, for the world stands very much in need of enlightenment. Sir Isaac Newton once refused to publish the results of certain experiments he had made, saying that the publication might serve to widen the circle of his acquaintance, "a thing I chiefly study to decline." Our economists do not seem, so far as mere publicity is concerned, to share Sir Isaac's aloofness; their love of society is so great as sometimes to appear promiscuous; so it must be that a kind of freemasonry among them seals their lips against revealing the prodigious truths of which they are possessed.

I sought, I say, some clue that would lead to a revelation of a principle that must INEVITABLY *tend toward, and result in, the periodic destruction of apparent wealth, annihilating in a short time nearly all the product of the industry and thrift of the previous years: and this without the concurrence of war, famine or plague. It can be shown that nations recover with surprising ease from most wars, famines or plagues: what they seem unable to recover from without first tasting the bitter-*

ness of slump, is prosperity, or what passes for prosperity. This is in itself perplexing; for, were not some definite toxic factor at work, it should be just the other way. Accumulation should make further accumulation easier; wealth should proceed toward more wealth; and so, barring civil strife within or conquest from without, world without end. But it is not so; therefore there must be a toxic factor.

What is that factor? A little reflection will reveal that it must be debt. If the first visible effect of a panic or depression is the deflation of debt; then, debt must have caused the panic or depression. Indeed, nobody of common sense has ever suggested any other reason. But then the question arises: how can debt, so sweet, so stimulating, so beneficent, so productive of all blessings—if you believe the professors of modern economy—how can debt suddenly change from dove to serpent, from Jekyll to Hyde, and ruin its faithful friends just as they have come to trust and love it?

To this question the professors of political economy murmur something about the "overextension of credit." Or, if you insist on being vulgar, you say, "too many people in debt." But that hasn't explained anything. How did too many people get too much in debt? What is "just enough" debt? Who decides what is "enough"? Does anybody decide? Does anybody think about it at all? What is a good loan? What is a bad loan? Why? How do you know? May a loan that seems like a good loan, really be a bad loan? If so, who knows whether it is good or bad, and how does he know? Does he know at first, or find out afterward? What are the economic consequences of any loan? Does either borrower or lender know? Do they care? Does anybody care? What

are the social consequences of a public debt? Do we know clearly even the ECONOMIC *consequences of a public debt? What is the effect of debt upon production? upon distribution? upon work habits? upon thrift? upon politics? upon sovereignty? What is the social effect of creditorship upon the individual? What is the effect of both debtorship and creditorship upon morals? upon religion? upon true education? Most important, what is the effect of debt upon contract, that pledge of faith which is the very essence of civilization? Has political economy anything to do with these questions, or hasn't it? If not, what is political economy, and why is it? If it has, what have the political economists said about these matters?*

So, to find out what the masters had said upon this obviously vital subject (for I assure you I was so sanguine of receiving knowledge that I then had not the slightest intention of writing a book), I ransacked the libraries, both in my own country and in Europe. I found nothing—nothing at all. That is, nothing which could cast more than a random beam upon the object of my speculation. Myriads of volumes upon the SPECIFIC *phases of debt, of course: how to get into debt, how to manipulate debt, how to keep books, how to borrow, how to lend; books upon banking, books upon brokerage, fiscal technique, statistics without end: but of Debt as an Institution—a mechanism which has become so far-reaching and all-powerful that commerce exists alone by its aid; and of the Consequences of Debt—moral, social, economic and political—implicit in the use of such a convention, all was silence! Can you believe it? Incredible, but true.*

To arrive at a parallel for such a lack, you must imagine that,

concerning the human body, we had a vast literature dealing with physiology, and not a single treatise to discuss what follows upon the performance of the functions of the living organism. Imagine, further, a medical and anatomical science which coolly ignored the possibility of disease as a factor inherent to the use of the organs; regarding it merely as an accident approaching from exterior sources. Assuredly this is difficult to imagine: but here you have, as nearly as analogy can give, the picture of a political economy which ignores the Pathology of Debt.

This struck me as so anomalous and so senseless that I began to wonder why the political economists had so deliberately avoided the matter. I do not yet know: I can only conjecture that they have wished not to give anybody any pain, not excepting themselves. No doubt they think there is enough evil in life without raking more. Mistress Quickly advised Sir John Falstaff, when he cried out upon God, that "there was no need to trouble himself with any such thoughts yet."

Yet what could be more obvious than that, in order to understand the giant destructive forces which have been created in human commerce by the introduction of Credit, and by its extension to its present volume, we must assume a pathology of the mechanism and study it assiduously toward a possible measure of control?

This, then, is the terra incognita into which I have stumbled. It was inevitable that, without a map, I should have wandered a good deal. I have had good instruction from the philosophers and moralists, who were greatly terrified of Debt without always knowing why or being able to tell why. The historians have helped me vastly in this pioneering, because,

even when the haze was thick and the undergrowth tangled, I could know at least what sort of terrain to look for, under any present conditions. Much of the progress had to be by way of original thinking: and there is this to be said of original thinking, dear friend: it is often more praiseworthy in purpose than accurate in result. Altogether I am sincerely humble in presenting my book: I know enough of the vast extent and complications of the subject to realize that it is merely a foundation for others to build upon.

There are several other things that I should briefly say. In my speculations upon the disease factor of debt, I have assumed, without question, the continuance of what we call the "capitalist system." If there are any who believe that this kind of economic behavior is soon to be exchanged for something different or better, I have no quarrel with them, and merely say that if they had hurried a bit more, they could have spared me the pains of writing. It goes without saying that, in a communistic or purely socialistic State, debt would not exist. What need would there be for it?

I use the words "capitalist system" because they have a definite meaning to almost everybody. I do think, though, that what we have, and what most human beings seem to adore—though lovers' quarrels intervene occasionally—is neither essentially capitalistic nor very much of a system. It seems, in its contemporary aspect, rather to be a queer, adaptable and usually WORKABLE *improvisation, based upon the hope of taking profit through the use of Debt at compound interest. Capital is one thing; capital-at-interest is not quite the same thing, as I hope my pages will presently show. Aristotle was very clear about the distinction: I fear the modern economist is not.*

It may be said that I have dwelt, in this book, upon the "dark" side of Debt, and omitted to stress and praise its brighter —or may we say SPORTIVE—*aspect. This is so; but the reason is apparent enough, I should think. The happier phases of Credit, such as they may be, have been sung by so large a chorus, and with such almost religious intensity, that there was no need of my additional voice. Besides, I aimed to treat one subject and one alone, and never to swerve from that path if I could avoid it: The Pathology of Debt. Fully and adequately to deal with that subject is more than enough for one man.*

The whole world is, at the moment of writing, bankrupt. There is a fiction of solvency being maintained. How much longer it can be maintained I do not guess, and nobody knows. The world has several times, and perhaps many times, squandered itself into a position where a TOTAL DEFLATION OF DEBT *was imperative and unavoidable. We may be entering one more such receivership of civilization. It is a curious fact that in all such periods, men and governments persist in behaving, as creditors, as though the world were operating for cash; and as debtors, as though an economy of pure credit sufficed for all purposes. When one such passionate belief encounters another, the result is never very happy.*

Finally, this book is not offered in support of any theory; for the assumption of a disease factor in Debt is hardly a theory. It pretends to initiate a fruitful inquiry; no more.

Sincerely ever,
FREEMAN TILDEN.

Warner, New Hampshire
1 April, 1936

I

A SCIENCE MANQUÉ

May God protect us from the devil—and from metaphors!
PAUL LOUIS COURIER

THE study of political economy, *as pursued,* is the most sterile of all academic employments. From the classrooms of schools and colleges emerge a body of completely muddled young men and women, supposed to be in possession of the principles governing the production and distribution of wealth; actually, they are in possession neither of such principles nor of the capacity to take their places in the world of exchanges with anything more than the usual empirical equipment.

These students incline to believe that they have been acquiring a science, because the majority of their instructors incline to believe that they have been teaching a science. It is a rude shock, therefore, when the graduates discover that not a single thing they have committed to memory enables them to predict the fate of their own adventure into trade, or even to discern the tendency of the commercial world in which they now take a part. Their instructors would be equally embarrassed, too, were it not for the fact that they are to remain teachers, and need not put their definitions to such a test.

With the question, whether political economy is a science or not a science, I am not directly concerned. It depends upon how one defines a science. If you accept Dr. Whewell's opinion that any "body of knowledge" is a science, then political econ-

omy is one; but so is pugilism, and so is military tactics, and so is poker-playing, for in all these we have a collection of related facts, rules, precepts, and a certain degree of assurance that from various causes various effects may ensue. If the definition of a science be as strict as that of Auguste Comte, then political economy is not a science, and any pretension it makes of being one entitles us to damn it with the epithet "pseudo-science."

Professor Cairnes urged that, though political economy cannot satisfy the requirement laid down by M. Comte (of predicting events), it can still predict tendencies, which is important. It would be important if it were true; but is it true? It would be a strange kind of world where there were tendencies that never arrived at any events: if you can accurately predict the tendency, the event is foreseen, no matter how much time it takes to achieve it. But how is it possible to predict a tendency from the examination of a set of definitions or rules, hardly one of which bears the scrutiny and analysis of two generations? From Adam Smith to the petty professors who so lamentably rushed into print with tipster tracts in the period of illusory prosperity just before the autumn of 1929, the development of the inquiry into economics has been one long chain of making rules, refuting them, qualifying them, forgetting them. Meanwhile the business of the world has gone on, without the slightest regard to anything ever said by a political economist. Indeed, had the enterprisers and the workers of the world paid any attention to "predictions of tendencies" coming from the professors, production would have stopped dead in its tracks, since the predictions would have

been almost as varied and contradictory as the body of predictors.

So, when Francis Walker[1] says that "it cannot be denied that the investigation of the conditions of wealth by Adam Smith and his successors has already resulted in the removal of monstrous delusions which a century ago profoundly affected the legislation of every civilized country," we must beg leave to say that there is not a word of truth in the statement. Monstrous economic delusions have never once, in history, been removed by being exposed in printed form by thinkers upon the subject. Monstrous delusions remove themselves from the scene by a slow process of proving themselves injurious, to the dull comprehension of the mass; or by a smash-up followed by a reorganization. But they usually do not remove themselves to any great distance: a fact which is shown, for example, in the present clamor in the United States for "more money" and "a division of wealth."

For most economists the notion of the mercantilists—that the increase of money in a state is in itself an increase in its wealth—is a fallacy long interred; yet it leaps from its grave with the agility of an athlete at every financial crisis in almost every nation. Among its present proponents may be found an ample number of those citizens who have enjoyed the benefits of instruction in political economy in the schools. But that is not the worst. The introduction of advisory political economists into government administration, in 1933, in the United States, resulted in experimental legislation which has proved so far extremely mischievous. Not only did the employment of these "economic experts" reveal the fact that the economists them-

[1] *Political Economy.*

selves are at hopeless variance in their principles; but it showed that the attempt to translate any economic theories into practise, by legislation or rescript, realizes neither the hopes of one set of theorists nor the forebodings of another, but instead results in a curious stagnation or suspension of the spontaneous activities of wealth-producing man.

The business of the world is, and can be under capitalism, nothing but a continuous flow of *improvisations* conducted in an adventurous spirit, with a lure of prizes for successful speculators. If you do not like that prospect, then you should not like the "capitalist system"; but if, on the other hand, you accept capitalism as being, with all its defects and brutalities, most responsive to the real preferences of most people, it is useless to quarrel with its quaint and impulsive ways. Its cardinal policy is to ignore all theories set for its operation: to run every piece of its machinery until it breaks down: then tinker or junk it.

It would be easy to humiliate and mock and ridicule the whole body of writers and teachers in the field of political economy by recounting the grotesque blunders into which they have fallen, since the Great War, in their efforts to project their theories into the world of facts. It is not for me to add to their mortification. If the "science" of political economy is at present in almost total eclipse in popular esteem, and if the professors are traveling incognito or not traveling at all in daylight, it is partly a pathetic result of the economists' attempts to be more practical, more helpful, more vital, more "useful" in the accursed modern sense. It is part of that tragic accent upon utility which, in the schools and colleges, has swept away most of the noble classical foundation, the preparation for liv-

ing, in favor of "practical subjects," a preparation for existing. That the schools can teach nothing practical, in this sense, is apparent. The Romans said that the way to learn blacksmithing was by blacksmithing: this remains an excellent precept. The way to learn business procedure is to go into business. Upon retiring from business—with a competence—there will be plenty of leisure to study the principles.

Political economy, as taught, can be comprehended only by minds experienced in the actualities of exchange, and only partly even by such minds. The power to deal largely with abstractions, when they are not purely mathematical, is a possession of the minority of mankind, and with these it arrives only with maturity and long observation, unless there is unusual precocity. Philosophy is the delight of the philosophical; all others it leaves untouched.

The frailty of political economy, viewed as a teachable science, is dual. There is first the uncertainty and the interior contradictions of the subject itself. The other weakness springs from the natural limitations of its expounders. The first defect is not made more tractable by the exclusive enthusiasm of the theorists, who, when they have propounded a principle or issued a definition, are led to support their doctrine by the Procrustean method—amputation or racking of collateral evidence. Thus, John Stuart Mill asserted that there was nothing in the Law of Value which remained either for him or for any future writer to clear up. Mill would have been hurt, had he remained on the scene, to see what minced-meat was made of his perfect theory by Jevons and others. Thus, too, Ricardo's theory of a wages-fund was for years regarded as exemplary reasoning. It has long since gone into limbo. If we come

nearer to the present time, we see that the cherished belief in the reaction upon commodity prices by a change in gold price has had to be reviewed.

If you choose almost any of the hundreds of definitions from classical political economy, and ask concerning it the question, "Is that true?" invariably the reply must be, "Well, it depends." Depends upon what? Obviously, it depends upon human behavior, credulity and imagination lying quite outside the field of wealth-production, but from which political economy, as taught, cannot be filtered. Jevons saw this clearly, and was led to point out that the "present chaotic state of economics" was (in his day) the result of confusing several branches of knowledge. "We must distinguish the empirical element from the abstract theory, from the applied theory, and from the more detailed art of finance and administration. Thus will arise various sciences such as commercial statistics, the mathematical theory of economics, systematic and descriptive economics, economic sociology and fiscal science." But Jevons did not say what nutrition, after these successive divorces, would be left in "abstract theory."

Nor did Jevons perceive the whole truth. For political economy as a science it is much worse. It dawned upon the eager mind of Karl Marx, when he was wrestling with the baffling nature of the commodity, which always eluded him just as he was about to snare it, that he was being swept into the realm of metaphysics. He suddenly saw a "mystical character of commodities," lying outside their use-value, wherein "the social character of men's labor appears to them as an objective character stamped upon the product of that labor," finally producing a social relation existing, not between man and his product,

but between the commodities themselves. I think Marx had no taste for this discovery, but there it was. He called it "the fetishism of commodities"; but call it anything you like, and it is still characteristic of the amorphous guest-friends that inhabit the house of political economy and make census-taking so ineffective.

The first political economists were philosopher-economists, and of these Aristotle is foremost. Indeed, the grandeur of that Greek mind nowhere appears more dazzling than in the way in which he clarified, from a turbid mixture of practises, certain fundamental rules that must govern all exchanges. Nobody since has been able to add an important syllable to Aristotle's formula of the part played by money, though this part has since been obscured in a hundred ways by the introduction of symbolical artifices. Also, it was clear to this philosopher—what has since been made more and more remote from common apprehension—that between *economy,* or the exchange of products intended for use by the exchangers, and *speculation,* where products are bought to sell—the end being riches, not goods—was a gulf that would tend to widen just as fast as productive power increased and traffic extended its horizons. Concerning the barter of the citizens of a city-state, Aristotle could erect a pure theory, and attain to the fullest degree that perfection of rule which distinguishes the science from the mere inquiry.

What we now call "political economy" is exactly what Aristotle called Chrematistic, greatly magnified and elaborated. It has at worst degenerated, as we see, into handbooks that aim to show how people can make money and get rich. But as people cannot learn how to get rich by reading books, but

only by learning the wiles of the marketplace *in* the marketplace, even this modest aspiration is automatically defeated.

The earliest English workers in the economic field, Locke, Hobbes and Hume, were philosopher-economists. Constantly to be observed in their writings, is the uneasy conviction that the growing power of money, not as a medium of exchange, but as an accumulative giant with a huge appetite, was playing havoc with "abstract theories." Nor could these philosophers satisfy the meditative merchants like Dudley North, Benjamin Franklin, Thomas Gresham, Peletiah Webster, and their like. The merchants easily discovered that the theory was honored mostly in the breach. Political economy as a theory seemed to be going at a furious speed in exactly the opposite direction from commercial reality. Curiously enough, the medical profession took a hand, to help solve this puzzle; and some of the shrewdest commentators on the subject were doctors: Quesnay, Barbon, Petty, and Mandeville.

Political economy, in its original sense, having died soon after it was born, the Chrematistic that succeeded began to be a subject of inquiry, which at last flowered in such books as Turgot's *Formation of Riches* and Adam Smith's *Wealth of Nations*. These men were noble reasoners, with really rare detachment, and if they could not create a science, they laid the intellectual world under a great obligation. I shall call them Political Economists, because there is no use quarreling at this late date with the appellation: but it is at least plain that they were Banker Economists. Their conception of exchange is clearly that of men who take for granted the system of borrowing-to-buy-to-sell. It is usury-economy, though it is amusing to see

how some of these first Banker Economists shied at the hard fact of usury, to which their emotions were still opposed.

To the Banker Economists succeeded the Broker Economists. It is not hard to see why the writers and thinkers upon political economy became, in each succeeding generation, more vague, more quarrelsome, less scientific. They were baffled by the same image-structure that was making the whole economic scene a complete mystery to the man in the street. The power over wealth was tending to be projected farther and farther from the source: symbols take the place of tokens, as tokens had taken the place of money, and as money had taken the place of commodities. Even symbols seem to be giving way to a sort of black magic that only the diabolists understand. Those who have attended auctions have observed that the professional buyers, known to the auctioneer, do not utter a sound. By a grimace, or a wink, or a shrug, they make their offer known. Now, imagine that the entente between auctioneer and bidder is so delicate that they do not resort even to the slightest physical change of position—that the auctioneer *knows* what they intend without any message at all. Imagine this condition, and you have something like the mechanism of Broker Economy, where even the banker—the buyer and seller of debts—is mystified by the operations that pass over him but no longer through him. It is no wonder that the student of the "science" is overwhelmed. So is his teacher.

Last stage of all, in the degeneration of the "science," has been the appearance of a horde of pseudo-economists, conjecturists and strayed salesmen, snarers of syllables (*auceps syllabarum*), writing anything about *profit* that came into their heads, and calling it political economy. The profusion of

paper, made possible by the invention of the wood-pulp process, has resulted in the issue of myriads of volumes that would in more prudent days have languished in manuscript or not have been penned at all. But this is only one side of it. In a world where nobody is very sure of anything, impertinence thrives. In an army without leaders, every soldier is a general. In a science of which the rules and formulas have in every crucial instance proved untenable, every newcomer can be a pundit. So, in political economy, in the past twenty years, there has been such an overproduction of experts that the whole field, considered as a sober intellectual inquiry, has become rather ridiculous.

The feverish, pale young aspirant for the degree of Ph.D., who has just wearily completed a thesis upon "Some Aspects of the Social Consequences of Door-to-Door Selling of Aluminum Utensils"—he is an Economist.

The Wall Street or Lombard Street newspaper reporter, whose extensive range of knowledge has been derived from chatting with the junior partners of brokerage firms, or with "customers' men," is invited to express his views in the *Cloak-and-Suit Gazette*. He becomes an Economist.

A persistent fellow, having lost his money by gambling on the exchanges, sets up as Financial Adviser in order to recoup his fortune, and collects fees from those who have not yet lost *their* money in the stock market, but, under such astute guidance, may be sure they soon will. This Investment Expert is an Economist and can now address Chambers of Commerce on the subject, "How Soon Will the Boom Come?"

A corner druggist invents a new type of toothbrush, which

reaches all the remote interstices where decay starts. This brush catches the popular fancy and is soon in such demand that the druggist is a manufacturer. He is now summoned to the Legislature to give testimony as to how wages of all bristle workers can be raised, hours of labor shortened, prices of brushes decreased, and exports stimulated. He sagely considers this reasonable prospect before a committee—and becomes an Economist.

All those millionaires—those "new men," as the Romans called them—whose fortunes have been created by their quite accidental attachment to some kind of business that has leaped into huge profits—are ex-officio Economists. In the five years before the Retreat-from-Prosperity began, these magnates were bounding about the world like animate rubber, trying to explain how they had become rich. Naturally, they could not explain any such thing, not having the remotest idea of the real fact—that a profit-tide had come in, and they had been bowled shoreward with it. But these lucky mediocrities whose vanity led them to believe that it was they who made the tide come in, now being Economists, began to lecture on First Causes. Political Economy, they remarked, is really very simple. You buy stocks when they are low and sell them when high.[2] If they are already high, you buy them and sell them when they are higher. There is no risk in this, really, because the higher they get, the higher they must get. Political Economy provides for this peculiarity of stocks.

[2] If the reader believe that I am here indulging in unwarranted facetiousness, I ask him to refer to a magazine article expressing the views of John J. Raskob, entitled "Everyone Can Be Rich" (or some such rubbishy style) printed just before the crash in 1929. This article, if it had the effect of making the trade in stocks even brisker than it then was, must have brought a good many people into sharper contact with "political economy" than they had intended.

Now, these "outsiders," when they were not charlatans who were parading as Economists for the same low purpose that makes malefactors adopt various disguises, were inflated simpletons, driven temporarily mad by the effect of a little public attention. Unfortunately, they were aided and validated from within the professorial ranks. It is a shame to scholarship in general, and a blow to its department of Political Economy from which recovery will be slow and difficult, that in a period when the cool hand of academic sobriety should have been laid on the brow of an hysterical public, the teachers themselves absconded or joined the mob. Not all of them, perhaps, but those that remained at their posts were not effective, and so far as I know, not even articulate.

Most of the younger men in the profession suddenly imagined themselves business men. Political Economy, they argued, is the "science of wealth," is it not? Well, people were getting rich, all around. Therefore, a political economist ought to know how to make people get rich, and if he care to stoop to it, he ought to be able to get rich himself. If Aristotle had been living, he would have whispered gravely that "wealth" and "riches" are not quite the same thing. If anybody had read the physiocrats, and principally Quesnay and Le Trosne, it would have been apparent to them that between *biens,* or goods, and *richesses,* or riches, there is a vast gulf: the Political Economy that deals abstractly with the one, cannot deal adequately with the other. But it was a period in which not alone was the passion for gain beyond bounds; the sheer vanity of human beings had reached the point where the Æsop frog had to be deflated or he would burst. Deflation came; yet I can only ruefully say that, so far as Political Economy is concerned,

no present evidences persuade me that an explosion would not have answered just as well.

Thus far I have generalized about the default of professional economists, their incapacity to infer from their so-called science the principles that, in the period of illusory prosperity following the Great War, pointed directly at a world-collapse, unemployment, misery and bankruptcy. I now have a painful duty to perform; which is, to select from that body of interpreters one of its deans, and by showing from his own writings his utter innocence of the great destructive forces at work before his eyes, to indicate the pitiable insolvency of this presumptuous "science." Without the slightest intent to be unpleasant toward a single personality, and expressly avowing my belief that his errors were only the general incompetence of his profession, I choose Thomas Nixon Carver, then David A. Wells Professor of Political Economy at Harvard University.

In 1928 Professor Carver published a book called *This Economic World*. In it he sought quite deliberately to explain the causes, from the viewpoint of the economist, of the "amazing prosperity of the people of the United States." It was, he proclaimed, "one of the greatest economic puzzles in the world today." Note well: it was a *puzzle*. It was something difficult for the lay mind to understand; something that the political economist must wrestle with, and expound. Professor Carver proceeded to grapple with this complex problem, and we shall see what he made of it.

Having first noted that "those persons [outside the United States] who resent our prosperity are likely to ascribe it to some form of *necromancy*," our economist hastens to give the views of *"the enlightened economic world."* The enlightened eco-

nomic world may retort, at this later date, that Professor Carver was a minister without portfolio, and had no right to assume to commit it. For myself, I think he was very definitely putting the case for his bewildered confrères.

Professor Carver found that the prosperity of the United States was not arising from the "pursuit of materialistic ideals." Such ideals "seldom bring such prosperity as this." We were prospering "because our ideals are precisely not materialistic, that all things are being added unto us because we are seeking first the sound principles of justice and the sound ideals of individual behavior which are the very essence of the Kingdom of God."

Within a few months from the time Professor Carver wrote these lines, the extent of the gambling in stocks and commodities had reached such a point that the rate for call-money in New York went above 20%; bootblacks and stenographers were buying blue-chip shares on margin; business men had deserted their offices to sit in brokers' rooms; banking houses and investment companies were loading upon the public a flood of foreign bonds and practically worthless domestic holding-company shares and "securities" at fabulous profit; the whole country was a stew, a hideous financial brothel, from which, six years later, the stench has not ceased to rise. The very essence of the Kingdom of God! If the David A. Wells Professor of Harvard University could put forth this kind of babble, is it any wonder that a dashing young Princeton teacher galloped into the arena with a treatise telling how to become rich by buying common stocks, and other instructors actually began to perform half-time service as publicity experts, bird-dogs and whippers-in for the brokers?

I shall pass over most of the lamentable nonsense about "the men capable of directing labor efficiently and willing to take a vow of poverty," which meant "more employment for labor, higher wages, and less poverty"; and we may as well forget and forgive the grandiose rubbish about "the old and aristocratic countries where they have so few men like ours—where they have too many talkers and not enough doers." It is only too plain that we had an army of doers. What and whom they *did*, however, will be a fascinating subject for posterity. Let us come directly to the solution of the economic puzzle. The question uppermost in the mind of Professor Carver was, "How long will prosperity last?" Let me quote:

> How long will our amazing prosperity last? To some it seems so unexplainable as to be abnormal. No one can say exactly how long it will last. It is safe to say, however, that it will last as long as we succeed in releasing human energy and applying it to useful purposes,
>
> As long as men of high capacity in large numbers concentrate their energy on industrial problems, refusing to be bribed into inaction by their own riches, preferring rather to reinvest their accumulating riches in productive industries,
>
> As long as we continue to thin out the workers in the overcrowded occupations by enabling them to enter those in which workers are scarce and much needed,
>
> As long as we prevent the congestion of manual trades by wholesale importations of cheap labor,
>
> And as long as we continue to reduce the sum total of incapacity from drunkenness.[8]

[8] I overlook, as an amusing and harmless idiosyncrasy, Professor Carver's preoccupation with the Demon Rum. All philosophers are entitled to their hobbies. Professor Jevons was convinced that the bad-business cycles are caused by sun-spots. Victor Hugo seriously proposed that Napoleon was defeated at Waterloo, not because of military deficiencies, but because God had decided not to let Bonaparte become any greater. I know a man who discourses with high intelligence upon many subjects, but leans heavily for inspiration and comfort upon the ouija-board!

I have cut the argument up into paragraphs so that it may the more easily be viewed in its terrible, nude, almost incredible wrongness. Here are five "reasons" for the "amazing prosperity" of the United States in the year 1928, not one of which conveys the slightest notion that Professor Carver knew what was going on about him, or that the science in which he was engaged was capable of elucidating the simple truth *that there was no true prosperity at all.* We know well enough now that there was not only no prosperity: there was a vast insanity and an orgy of debt which was pledging wealth faster than it was being produced, and that this process had been going on since *1909.*

In these "five reasons" no account is taken of technological unemployment caused by the multiplication of machines; not a word of the drunken use of credit; nothing of the destruction of wealth during the war; nothing of the repercussion in the United States of Europe's currency collapse; of the mounting maldistribution of gold holdings; of the dislocation of the balance between production and purchasing power; of cyclic movement of world prices; of the moral breakdown partly the result of the Great War, but more the effect of a profusion of luxury antedating that war, which was cynically extended by war brutality: not a suggestion that the prosperity was purely illusory, and that the end of the devil's dance must come, and come speedily. On the contrary, the presumption of Professor Carver and of his associates was that things were going along very well, and the only question was, how long they could keep going forward so nobly and satisfactorily.

Now, the political economists may, at any time, retire into an aseptic solitude with their science, and declare that they

are simply fact-finding bodies, enunciating a set of principles drawn from those facts, and that it is quite immaterial to them how human beings act upon the deductions. Indeed, Professor Walker tried to state this austere position in his *Political Economy* when he said:

> The political economist has no more call to preach free-trade as a policy of nations, than the physiologist to advocate monogamy. His business simply is to trace economic effects to their causes, leaving it to the philosopher of every-day life, to the moralist or statesman, to teach how men and nations should act in view of the principles so established.

This sounds well; but it is a program impossible of performance, and a doctrine which no political economist, including Professor Walker, ever followed. The reason is plain: except for a few generally accepted principles such as the law of diminishing returns, the bulk of political economy is pure opinion. Opinion, promulgated in any field of inquiry, is preachment, whether the inquirer knows it or not. It is meant to affect the reader's belief. In this case, what Professor Walker is saying is that, instead of trying to sway the mass of people directly, he means to affect the beliefs of moralists and statesmen, the philosophers of everyday life, and *through them* attain the identical purpose.

But even if political economy could, or ever did, take such a cloistered position, the economists themselves have always emerged blithely into the workaday world with their translations of principles into terms of activity. Did anyone ever yet hear of a professor of economy who, being asked what he thought of contemporary conditions, turned aside coldly with the remark, "I have an opinion, but it would not be proper

for me to talk about it; I am a scientist: I am not concerned with current performance, only with principles"? On the contrary. For the past twenty years, periodical literature has been inundated with inferences, advice, plans, and judgments, emanating from the greater and lesser chairs of the schools, and embracing considerations that intruded into the fields of politics, ethics, psychology, government, sociology, and even metallurgy.

The pretense that political economy is a science or body of knowledge clearly defined and separable from other inquiries that deal with human activities, has naturally led the economists into one impasse after another. The habitual practise of the economist, when he comes to one of these dead-ends, is to make an assumption and proceed as though nothing had happened. The assumption so made will of course reflect the enthusiasm of that particular economist for the development of a formula of his own.

From the very first days of political economy as we know it —that is, from the period when stress began to be laid upon riches rather than upon use-values—the economists have always been baffled by the extraordinary rôle played by *credit*. You may safely say that there are two political economies, at least in theory: a cash political economy, and a credit political economy. Although these overlap, it is impossible to make them form a coherent pattern. It is really amazing that so many complexities could be introduced into human relations by the mere decision of a man not to employ his surplus himself, but to lend it to somebody else. Those things that can be resolved into satisfactory principles, in political economy, will almost

invariably be found to be the acts of production and distribution that stand apart from *debt*. From that point, the farther we go the more mysterious it gets.

Adam Smith wrote in the late middle part of the eighteenth century; yet in 1889, in Great Britain, the principal trading nation of the world, Henry Dunning McLeod could say truly: "It is somewhat surprising that in this great mercantile country there is not a single treatise in the English language which contains an exposition of the juridical and mathematical principles of the colossal system of credit, together with their application in practical commerce."

McLeod, an accomplished reasoner and no mean mathematician, devoted himself to the task of curing this defect. That he did not satisfactorily encompass the phenomenon of debt was perhaps due to two principal reasons: first, that it may be that nobody *can:* and second, that although he knew perfectly well that credit is debt, and can never be anything else, he constantly dealt with credit as though it were not debt.

I say with perfect assurance that there are many gaps in the study of political economy which can never be filled in until the part played by debt is better known and described. It is a corner of the theoretical field that has curiously been avoided by the thinkers on the subject. In commercial procedure, in fiscal science, in business law—in applied economy in general—there is a vast literature concerning credit. None of these works tells more than what the concrete application of credit is, and the immediate results of it. The vast significance of abstract debt in the whole web of economic relations, its long-term consequences, its remoter reactions upon the individual and upon society as related to the production and distribution

of wealth, its part in the unexplained rise and fall of nations and empires—all this is an uncharted and hardly traversed area.

Nothing is clearer than that the effects of debt are both physiological and pathological. It is a food and it is a drug. It is a stimulant and a narcotic. It accelerates, and it retards. It assists individuals, and it ruins them. It brings states to power, and it sends them toppling.

Political economists have contented themselves with noting the functions of debt upon its physiological side; or, at most, making some very mild, evasive references to "the abuse of credit," "the vagaries of banks," "undue expansion," "reckless speculation," and the like. This inquiry purposes to trace the natural history of debt from its beginning to its present highly organized state, and to explore those consequences of the phenomenon which reveal it as a cause of economic and social disease. In connection with this endeavor it will be necessary to consider the subject of Contract, which is the barrister of Debt, and of Usury or Interest, which is the bailiff of Debt. It will be seen that the same pathological symptoms appear with the same precision and certainty, whether the debtor be an individual, a corporation or a government.

II

CREDIT IS DEBT

For whatever form the credit may assume, it is always in the nature of a loan.
H. D. McLeod

Jeremy Bentham, who was an eccentric British combination of economist, jurist and busybody, described certain words and phrases, much in use in politics and economy in his time, as "impostor terms." Such terms flourish in all ages, but never more luxuriantly than when popular dissatisfaction is tending toward some broad social change. At such moments impostor locutions are used with the deliberate intent of screening some simple truth from those persons it is planned to deceive.

In the long and involved history of political economy there is one word that stands out beyond all others as a triumph of imposture. That word is Credit.

Although the perfect victory of this lying term was reserved for the mercantile period of economy, whence it has come down to the present day in the gorgeous robes of its satanic mendacity, the intent to delude mankind by the use of the word can be traced to classical ages.[1] Indeed, we know that both the Greeks and the Romans were adept in the employment of euphemisms. Sometimes they were connected with religious fear; sometimes they were associated with matters of taste; sometimes they had a smack of sly humor. The

[1] Other current impostor terms are "underconsumption" and "reflation." Both are employed to conceal the fact that purchasing power and production have been wrenched out of balance by the piling of Debt.

Eumenides (well-disposed goddesses) were, in fact, horrible creatures with serpents in their hair. The "Euxine" Sea was not really a friendly body of water, but a menace to small ships. The Romans preferred to say of a man that he *had lived,* rather than to say bluntly that he was dead.

It is not possible to say at what time the word "credo," in Rome, began to take its present meaning, but two things are certain: that the original meaning of the word referred to faith or trust that had nothing to do with the loan of capital, and that there had been since the earliest days several words amply describing the loan of goods or money. But by Cicero's time it was either good taste or good business to place the cart in front of the horse; that is, to call a debt a credit, and to speak of "trusting" a man when "lending to him" was meant. There is no doubt in my mind, in view of the perpetuation of the fraudulent euphemism (which shows that it answered a constant commercial need), that the word credit was perverted with the intent to delude: at first, perhaps, the lender of capital: then the borrower, and finally the whole body economic.

The success of the verbal swindle is perfectly apparent. When a man today says that he has a "line of credit" at the bank, he is proud. Suppose he were forced to say that he was "in debt to the bank" for the same amount? We speak of public credit, and instantly the mind pictures a vast amount of money in the public treasury. Say "public debt," which is the truth of it, and the taxpayer winces and groans.[2] "Use

[2] The only part of the so-called national wealth that actually enters into the collective possessions of modern peoples is—their national debt. Hence, as a necessary consequence, the modern doctrine that a nation becomes the richer the more deeply it is in debt. *Public credit* becomes the *credo* of capital. And with the rise of national debt-making, want of faith in the national debt takes the place of blasphemy against the Holy Ghost.—KARL MARX.

your credit with us!" bawl the instalment merchants, the tally-men, in their advertising. "Your credit is good with us!" The reader flushes with vanity at the suggestion. But suppose the advertisement read, truthfully, "We will permit you to go into debt! You can owe us—a certain amount!" It would not be so inviting, I suppose. You see, credit does not sound like anything that must be paid. On the contrary, it has the ring of something that *has* been paid—a kind of reward for integrity. Debt, on the other hand, is a mournful word, a gloomy word, a raven of foreboding. Debt is harsh; credit sings like a nightingale. It is not odd that we speak of "enjoying" credit. But you never heard of anyone "enjoying" debt—except the pawnbroker or the insured creditor.

As soon as it was clearly understood that the briskness of trade—with the acceleration of profits—was dependent to a great extent upon the simultaneous propagation of debt and suppression of the *sense* of debt, the banker-and-broker-minded economists of the industrial period deliberately conspired to supplant the word altogether; and they have been so effective in this purpose that today, in the textbooks upon commerce, credit, and general economy, the reader may look in vain for any mention of debt, except for some very special reference such as public debt. Debt has disappeared from the field of economic inquiry, and credit stands in its place.

Now, when I mention a "conspiracy," I am of course far from charging the economists, or even the bankers and trades-men, with any immoral intent. Nothing could be more natural, in the case of a merchant who discovers that there is vast satisfaction in borrowing-to-buy-to-sell, or of a banker whose profits can accrue only from debt-trading, than to attribute to

the manipulation of credit some positively beneficent character which stands quite apart from the simple assumption of indebtedness. It is also clear that there could have been no such rapid advance in production and distribution without this mechanism. Therefore, an economist saturated with the mercantile and banking view would not need to be convinced; he would indeed start with the presumption that credit was a constructive force, needing only a prudential curb here and there to make it a perfect instrument. And it is a fact that the only doubts thrown upon this phenomenon have emanated from sour philosophers of human conduct, mathematicians, and reminiscent bankrupts.

The truth is that the political economists, in so great willingness to accept credit as a benevolence comparable with the invention of the wheel, the pulley and the lever, have never really given much thought to the matter. We have seen that H. D. McLeod, in the latter part of the nineteenth century, could truthfully say that the world's greatest trading nation was without a treatise on the subject; a lack he attempted forthwith to remedy in two large volumes. The definitions of the textbooks differ widely, but they usually have one thing in common: that they are insufficient or inaccurate. The surprising elasticity of the word partly accounts for this. "Credit" may refer simply to the reputation of an individual or an institution. It may be used to denote, in bookkeeping, the side of the account in which payments are entered. Sometimes it is applied to the payments themselves. It may mean bills of exchange, checks, drafts, or even currency. It may be narrowed to describe some particular technique of trading. But, aside from this indefiniteness, it is clear that, concerning credit in its most

important modern sense—a device connected with the transfer of wealth in which a legal debt in incurred—there is still the difficulty that it may be regarded in the light both of what it *is* and of what it *does.*

If we consider merely the abstract question of how credit arises, the definition of Nicholas Barbon is pithy and correct. He said, "Credit is a value raised by opinion." But this definition is no more correct than a hundred others that have been given; it is only expressed differently. If, with Harley, Earl of Oxford, you wish to call it "the handmaid of Honour," or "the Offspring of Universal Probity," you will not be wrong. You may safely agree with Demosthenes that "it is a business man's best capital." But you must observe that such definitions merely concern the fiduciary derivation of credit; its origin in the belief on the part of one man that another man will keep his word. The functions of credit, based upon such a primary faith, are quite another matter.

The *Dictionary of Political Economy* (Macmillan, 1926) says: "Credit supplies the means whereby the transfer of wealth from one person to another is effected for a period of time, at the end of which it is restored to its owner." This is a clumsy attempt to embrace all the facts, which defeats itself. This definition equally describes a contract of bailment or the loan of a horse, neither of which is concerned with credit except in the remote sense that any contract whatsoever is founded upon faith.

Here is another definition, this time by Prof. Edwin R. A. Seligman: "The essence of Credit is the right to utilize something, whether commodities or money, or money's worth, the

ultimate economic title to which belongs to another."[3] There are two words here that are disconcerting, to say the least. I shall suppose Professor Seligman meant by "utilize," simply to "use." The word "utilize" is one of those stiff-shirt locutions that came into the language in Victorian times to make trouble for honest words. If the word must be used at all, it properly would convey the impression of "finding a utility" for something which presumably was before a waste product. The other word is "ultimate." The ultimate title to any property is the final title. If there is no purpose to transfer title, but merely to grant a transient property, we are again describing the simple act of borrowing, in this definition.[4] Credit is only philosophically involved in the extension of a "right to use something" that "belongs to another."

Why be so laboriously unskilful in definition? The essence of credit is that a debt has been created. The essence of debt is that there has been a transfer of wealth with the promise of future repayment. No volume of cloudy verbiage should be permitted to obscure these basic facts. It makes not the slightest difference, in the principle, whether the wealth was in the form of goods, of money, or services. When the *Encyclopædia Britannica* says that "commercial credit is the sale of goods or the transfer of property upon deferred payment," the definition is fundamentally sound, though "property" is a legal term which perhaps would better not be used in a purely economic rule.

[3] "Instalment Selling," an address, 1927.

[4] Hiring and borrowing are contracts by which a qualified property may be transferred to the hirer or borrower: in which there is only this difference, that hiring is always for a price, or stipend, or additional recompense: borrowing is merely gratuitous.—BLACKSTONE.

The *Britannica* is also to be thanked for its heroically honest statement that "the term credit is best understood through its relation to the term debt. Debtor and creditor are correlatives. *It is therefore another name for debt.*"

Now, why could not the professors of political economy begin their dissertations upon credit with this clear statement of fact—a fact that every reflective person knows before he has suffered from immersion in dialectics? When a writer or a thinker embroiders a truth that is susceptible of simple statement, with a superfluity of hedges and qualifications, it reveals one of two things: either that the matter is not clear to him and he is floundering in a sea of phrases, or that a bald statement would embarrass him in the projection of some special theory. As the political economists of the past two centuries have been persons of unquestioned intelligence, though rarely men of original thinking, the rational conclusion is that, in obscuring the brutally obvious "essence" of credit, there was something in the back of their minds which they were reluctant to admit even to themselves. What was it?

McLeod was the man who revealed the reason for this reluctance, and he was goaded into the confession by the mathematicians. McLeod was, *par excellence,* the banker-minded economist. Banker economy is a structure erected upon the assumption that credit is a *plus* quantity in the interchange of wealth. When Peacock, Bishop of Ely, and Euler proposed, as mathematicians, that debt—and therefore credit—is a *minus* quantity in economy, the charge made no considerable stir at the moment, because the commercial world was too busy making money to care whether it was being done by a plus or a minus, and the economists' minds were elsewhere detained.

But McLeod, setting himself faithfully and honestly to work to write the first definitive treatise upon credit in the English language, shrewdly observed that Peacock and Euler were hewing at the trunk of the tree. If modern industry and business—likewise "prosperity"—had been built upon a minus quantity, it denoted an economic position that, if not positively dishonest, was at least unsound. McLeod wrestled with the problem and decided that he knew the answer. Being something of a mathematician himself, he first labored to show that Peacock and Euler were *mathematically* wrong. With this exercise, fascinating though it may be to some, we have nothing to do. The mathematician, in the exact sciences, is an invaluable fellow; but introduce him into a discussion of the blundering, pragmatical affairs of men, and he will not only inevitably upset the applecart, but finally succeed in burying himself beneath the apples.

What is important to us, as homespun logicians, is that McLeod worked out a definition of credit which explained all. That is, it explained all to the satisfaction of McLeod, who (with many excellences) was equally certain and vehement about the things he knew, the things he didn't know, and the things nobody can know. He said, rather triumphantly:

"The function of credit is to bring into commerce the present values of future profits."

The definition is undoubtedly adroit. If it be acceptable, it explains and justifies practically all of those disconcerting and even questionable practises, implicit in the employment of debt to create more debt, and then further debt, and so on to a mighty pyramid of debt, with the theoretical conclusion that

everybody has made money by the process and the world is a far better place to live in.

McLeod arrived at this definition by reasoning somewhat in this manner: There are two kinds of products. There are the products already in existence as the result of past labor—positive products. Then there are those to be produced in the future—negative products. (Observe, the economist is employing a mathematical formula.) Now, "as we may buy the right to a thing already produced, and also the right to a thing only *to be* produced, it follows that we get corporeal and incorporeal property; therefore *positive* economic quantity and *negative* economic quantity."

"By this means," says McLeod, "we double the field of economy as usually treated, and we do in economics what those have done in mathematical and physical sciences, who introduced negative quantities into them. By this means we are enabled to obtain the solution of problems which have hitherto baffled all economists, and it is by this means only that the Theory of Credit can be explained."

In effect, McLeod implies that it is by this means only that the capitalization of debt can be justified. For he is here making an apologetic argument. The world of business had already used the instrument of debt as a plus quantity without waiting for Mr. McLeod and his fellow economists to become unbaffled. The economists were therefore furnishing the ethics for a procedure which had been employed without benefit of philosophy.

Unfortunately for McLeod, his mathematical mind led him into a most amusing fallacy. In mathematics you are dealing

with abstract quantities. Your figures and symbols do not have to wear clothes, eat bread, or ride on trains. You may employ negative quantities as much as you like, provided you do not write checks against them. But in economy, which concerns the production and distribution of wealth by all kinds of peculiar people, who do not at all behave like figures and symbols (though in all conscience they can behave like jackasses and grasshoppers), production is production, and negative production is just nothing at all. There is no such reality as a *future profit*. Nor has anybody a right to assume as wealth, in political economy, an equation which implies a future profit. There are profits; there are hopes of profits; there are speculations based on the hopes of profits: future profits there are not. Profits cannot exist until goods are produced and sales are made; at that time they may be considered either present or past. "Profits" taken from the exchange of market "futures" are merely *present* transfers of wealth arising from speculative opinion.

I presume Mr. McLeod to have been a good, religious man; but had he been prompted by the devil himself, he could not have imagined a more destructive force, an idea less likely to promote human happiness, than the notion that we should treat *incorporeal* wealth as an existent asset. At the present moment the whole world is littered with the economic débris and the human derelicts incident to that delusion. Incorporeal wealth is what the spendthrift uses, after dissipating his real wealth, to get loans from any fool that will trust him. Incorporeal wealth is what the dishonest corporation includes in its statement of condition, to beguile both its stockholders and

prospective investors. Incorporeal wealth, masquerading as true assets, is what compelled the greatest banks in the United States, in the period 1929-33, to pour hundreds of millions of dollars from "surplus" into "contingent funds," where the money disappeared, never to be seen again, since it was to make good losses already taken. The sanguine idiot who buys chances in the Irish Sweepstakes is, from the moment he buys his ticket, rich in incorporeal wealth. Enough of the nonsense known as "incorporeal wealth"!

Nor does "buying the right to a thing *to be* produced" mean anything in economy. You can buy a participation in the *hope* or expectation that a thing will be produced.[5] In buying this right, the buyer should understand that he is buying trousers for an unborn child: time may show (1) that the child is not of that sex, or (2) that the child was still-born, or (3) that what was supposed to be the promise of a child was, in reality, gas distension in the lower bowel. In this third category, transposed to the economic world, belong a greater part of the speculations in the field of credit.

Whether credit or debt is a plus or minus quantity, in the sum total of human economy, does not require the calculations of the mathematicians to determine. It is a matter of sheer common sense. Consider an isolated group of farmers and artisans who throw their production into a common stock.

[5] It appears to me that McLeod was confused by his observation of the property law concerning incorporeal hereditaments. Such legal rights issue *out* of existing bodies of wealth, but are not rights *in* such things-corporate. Their existence is a juridical abstraction, and they can be the subject of contract insofar as their existence is a *possibility*. The tithe is a species of such incorporeal hereditament. It is a tenth part of the *hoped-for* increase of (for instance) cattle. But the law does not make the cattle fecund. That a farmer should stipulate that his cow will have a calf, is an absurdity. He may stipulate that *if* his cow has a calf, he will bring it to his creditor. It is quite unsafe to thrust legal concepts into the realm of economy; "property" is not an economic term.

They have created a surplus, against lean times, of potatoes, meat, shoes and roofing. Along comes a stranger, quite without means, and desires to settle among the others. If they will lend him food, shelter, and clothes, a bit of land, and some tools, he promises to be industrious, create commodities by his labor applied to the earth, and repay the loan. He asks credit: he urges that he be allowed to go into debt. Suppose his request is granted. The stranger receives enough capital to begin operations. The common stock is now depleted exactly to the extent that the stranger was "credited" with goods. Does that loan represent a plus quantity or a minus quantity?

Jevons says that "capital simply allows us to expend labor *in advance.*" He means, of course, in advance of hoped-for production of wealth. To be sure. The very fact that the capital is so used implies a minus quantity. If the stranger, mentioned above, proves a malingerer, a parasite, an inept worker, or even an unlucky man, the capital is sunk. The group is then poorer by just as much of its commodities as this man consumed. If his labors return exactly as much as he was given, there is neither gain nor loss. If the man prove successful, wealth has been added to the stock. Any one of these results *may* arrive. Are we to call each one of the three possibilities a plus quantity? Why not call it a speculation, which is what it is; a speculation backed with a risk of existing wealth, which is exactly the truth? Until we know the answer, prudence suggests that we regard the risked wealth as a *potential loss.*

And here, by the way, may be found one answer [6] to that question which has for so many years puzzled economists and

[6] Another answer will be discussed in Chapter XII.

other thinkers: where does all the wealth produced go to? How is it, especially in modern times, when the implements and the volume of production have per individual so vastly increased, that the world is still only a few jumps ahead of starvation and distress at any given moment? The increase in population does not account for it, because the available sources of raw material are nowhere near to being exhausted.

One answer is that wealth tends to pass out of strong hands into weak hands; from the industrious to the less industrious, from the serious to the light-witted, from the prudent to the visionary. It is quite obvious that the best employer of capital is the man who has created a surplus by his own efforts: and the best place for him to employ capital is in that business where he showed his skill. He has *proved*. But this original creator of surplus often relaxes, does not care to expand operations, or wishes to have leisure. The phenomenon of debt (credit) intervenes in this situation. A man without capital comes along, saying, "Lend me your wealth, and I will produce something, and will pay you back not only your wealth but an additional amount (interest)." This bargain is struck; but we must realize that the capital has passed from strong hands into weaker hands: for it has gone from the man who showed he can create, by creating, to a man who merely *says* he can. Of course, the owner of the capital may exercise his judgment as to the character of the borrower, his general ability, his past record. In the higher elaborations of credit, however, the lender seldom does this, because he lends through brokers or agents to those whom he never sees. On the whole it can be said that capital tends from strong to weak.

The enormous losses to the whole body economic every year, through unprofitable speculations by means of credit, partly account for that nose-to-grindstone condition of the race. These vast inroads upon economic surplus are constant: but on account of the highly organized manipulation of the function of credit, they tend to become visible only at periods. In the whole sum of lending and borrowing, dishonesty probably accounts for a relatively small part of the social losses. For the most part, the hopes of both creditor and debtor, that the borrower will succeed, are sincere but illusory. The easier we make the possibility of debt, the more failures there will naturally be; consequently the greater depletion of economic wealth. Thus surplus is always tending to destroy itself. The urgency of capital to be at work profitably overcomes its timidity and blinds it to risks.

In the first days of borrowing and lending, the borrower always sought out the capitalist and urged the loan. As capital became more plentiful, and the use of it more organized, the capitalist came to deal oftener with scriveners or go-betweens; but still the man was seeking the money. In modern times, when capital's craving for investment becomes increasingly imperious, the money tends to seek men. Borrowers (debtors —users of credit) gradually become employees of capital, being deliberately sought out as prospective *workmen*. In the flush false-prosperity of the later twenties, banks in the western United States, and perhaps elsewhere, *suggested* to farmers and others that they borrow money to extend operations, purchase land, stock and commodities. Every large city bank realizes the importance of soliciting business from "good" borrowers. A frequent, quick-turning, large-balance debtor is a

source of great profit to a bank.[7] He speaks of "employing capital": he does not realize that capital is really employing him. But, of necessity, this hot-breathed desire on the part of capital to be "making money" results in colossal errors of judgment that strip society of just so much of its accumulation of wealth. It is natural for reports of successful ventures to be cried abroad, and just as natural for disappointed capital to nurse its wounds in the privacy of its closet. It is only in times of great stress that people fall into the habit of admitting their losses. It is normally true that men would rather confess a felony than admit they are victims of a bad investment.

One of the reasons, then, for the rather surprising poverty of mankind, is that so great a part of its surplus is being constantly frittered away in delusory and defeated projects. A single instance may serve. There is gold in the world to the present value of, say, twenty-nine or thirty billions of dollars. But if the sum total of wealth that has been deducted from man's realized efforts, in order to acquire this gold, could be computed, it might be that gold would not be overpriced at a thousand dollars an ounce. Here, again, human nature glosses the bitter fact. We hear of the great Homestake Mine, and the profitable deeps of South Africa: few persons ever have seen a sad volume compiled by the late "Obsolete" Smythe of Wall Street, where on pages after pages are listed, in small print, the names of mining-company "securities" of no value except as *paperasse*. "It takes a gold mine to run a

[7] "A banker is a trader whose business it is to buy money and debts by creating other debts."—H. D. McLeod, *Theory of Credit*. This was one of McLeod's happiest successes in definition. Clearly, so far as "deposits" are concerned, a bank is an institution that speculates in debt with borrowed capital.

gold mine" is an old saying, but it is truer to say that it takes an enormous draft upon stored surplus to locate and produce one ounce of gold.[8]

A pathetic side of the manipulation of credit in modern times is that the owners of capital, especially the little capitalists, are swept into a pool of adventure, in which the actual lending of the capital is on a great scale and performed by central agencies alleged to be so expert in debt-trading that it is better to entrust all to them. In this way loans are made and debtors accommodated, representing risks that the owner of the money, were he lending directly, would never dream of taking. It is supposed that the great professional lenders are vastly experienced, and possess almost magical discretion. The truth is that these pompous egotists throw money around, in prosperous times, with as much abandon as though it were confetti. Walter Bagehot, a really wise observer of the financial world, who wrote charmingly of "Lombard Street," said: "Ten years ago the house of Overend, Gurney & Company stood next to the Bank of England in the City of London. . . . Yet in six years they lost all their own wealth, sold the business to the Company, and then lost a large part of the Company's capital. *And these losses were made in a manner so reckless and so foolish, that one would think a child who had lent money in the City of London would have lent it better.*" And, if you multiply that instance thousands of times, it becomes easier to understand where some of the world's precious accumulation goes.

[8] Jevons: "Some of the gold possessed by the Romans is doubtless mixed with what we now possess: and some small part of it will be handed down as long as the human race exists." A thought for the imagination to ponder, especially the imagination that expects gold to be replaced as a measure of value by Dr. Irving Fisher's commodity index.

The modern world, however, boasts of the extent of its manipulation of "credit facilities," and announces that one unit of actual coin or convertible currency can be made to support thirty or even forty units of credit. So that, soon after the depression began in 1929, the President of the United States, Mr. Hoover, was found begging his people not to hoard money, for by doing so they were destroying, for every dollar so hoarded, many dollars of invaluable credit. Of course they were. What did the great manipulators of credit suppose would happen when they had piled obligation upon obligation in an inverted pyramid that rested upon the final right of some original creditor to claim the wealth he had lent to his debtor? Did they think the time would never come when, from panic brought on by a sense of the topheaviness of the structure, the actual owners of the goods would suddenly say: "Pay me"?

Great nonsense is talked about *hoarding*. In the wreckage of a panic or a depression, people sigh at the thought of what this hidden money could do for them if they could only lay hands upon it, and the hoarder is execrated. But the hoarder is doing only what all the rest would do if they had anything to hoard. The others, however, have nothing but legal titles so encumbered with debt that very soon the mortgaged property will not bring even the amount of the obligation. The hoarder is the man who, so to speak, has kept a string upon his wealth. It is true that if he hoards, his very act may set in motion the sequence of events that can make the paper finally worthless. But in any case the hoarder is never to blame. He is performing like a normal human being seeking safety for his wealth. If *he* does not hoard, the banks *will:* and it is better

for the individual to hoard, for a distressed government will always play havoc with bank assets in its efforts to placate the clamorous debtor class, its method being to extract the certificates of wealth from the banks and leave its promissory notes in return.

No; quite clearly those responsible for a monetary crisis—which is a natural catharsis incidental to debt gluttony—are those false shepherds who have astonished the world (for a brief strutting moment) with their prodigies of debt manipulation.

If A lends $1000 to B, A is speculating upon B's honesty, industry, skill and promptness. That is precisely what debt is, and precisely what credit is; and it is basically nothing else—a speculation. If B is possessed of some tangible wealth which he offers to "secure" the loan, then the debt is so much less a speculation, though it may be doubted if there was ever a debt or credit that was entirely without speculative risk. In this transfer of wealth from A to B, not a penny has been added to the wealth of the community or of mankind. It *may* result in an increase of wealth. We must wait and see.

But with every step in the expansion of credit upon such a debt as exists between A and B, the degree of speculation increases. For example, the lender to a bank (erroneously known as a "depositor") is not, at least in theory, so much a speculative creditor as the bank is in respect of its debtor, for the bank capital and surplus, and legal liability, partly protect him in the operation. But every elaboration of the principle must increase the possibility of loss. The farther credit gets from its source in actual callable wealth, the greater the danger. The whole chain of claims being based upon the

identical wealth and upon current accretions to wealth resulting from the use of the credit, it must follow that some of the claims are more realizable than others. In a panic, when the chain snaps, it snaps always at the link nearest the actual owner of capital. You may salvage what you can from the other links.

Modern credit-cramming, then, is a magnified speculation based upon the assumptions that:

1. Nothing will occur which will induce the basic creditor of pledged wealth to exercise his call and remove the wealth from the market.

2. Before the structure can fall apart, new wealth will have evaporated the "water" and converted the minus quantities to plus quantities. This is not essentially different from the hope of the embezzler that, before the fraud is discovered, his horse will win and the money can be returned.

Unfortunately for these assumptions, credit grows constantly upon credit, and the very success with which the scheme can be worked, insures that it will be overworked. "It is not easy to define how far credit may extend safely," says a sage writer in the *Dictionary of Political Economy*. No, indeed. Such a comment cannot be charged with undue temerity. It is undeniably easier to project an anemic statement of this kind than to grapple with the tough problem whether credit can *ever* be extended *safely*, in the sense that it sets in motion forces that go far beyond the immediate creditor and debtor.

There is one cause, and only one cause, of all panics and depressions in the economic world. That cause is debt. Credit is debt.

If you can imagine a commonwealth in which nobody owed anybody else, and where the commonwealth owed no exterior commonwealth, it would follow that, though there would be lean times and fat times, according to the smiles of Nature or her frowns, and although the individual would fare better under some conditions than others; yet if no credit had been extended, which is the same as saying that no debt had been contracted, there would be nothing to cause a panic or bring a monetary or exchange depression. It is the fear of capital for its safety that precipitates a panic, and it is the attendant rush to cancel debt that brings about the ensuing depression.

It follows that any scheme looking toward the avoidance of panics and depressions must deal with this cause; and any plan that does not do so is not only idle, but may be a dangerous adventure. Hence, the way to deal with a collapse of exchange is not to pretend that "prosperity" is merely in a temporary eclipse, to return again if everybody will act optimistically; but frankly to acknowledge that conditions were unsound, and permit the natural impulses of trade to rectify them. This prescribes a bitter medicine, which people do not like and politicians cannot collect upon; but quack remedies merely put off the final reckoning.

The natural remedies, if the credit-sickness be far advanced, will always include a redistribution of wealth: the further it is postponed, the more violent it will be. Every collapse of a credit expansion is a bankruptcy, and the magnitude of the bankruptcy will be proportionate to the magnitude of the debt debauch. In bankruptcies creditors must suffer.

If one takes the position that it is better to have a debt

economy in spite of its resulting crises and depressions, because "it makes for progress," this is perfectly understandable; and though it cannot well be demonstrated that it "makes for progress," most people believe it does. But whatever one may believe about the connection between credit and progress, and with the free admission that the use of debt has facilitated production and exchange, it is folly to ignore, as have been ignored, the pathological qualities of this economic and social artifice. The morbidities noted in the following chapters of this book are not to be regarded as accidental or endemic, but as intrinsic to the device itself, and inevitable attendants upon its use.

III

"ITSELF AND FRIEND"

> FALSTAFF—Master Shallow, I owe you a thousand pound.
>
> SHALLOW—Yea, marry, Sir John; which I beseech you to let me have home with me.
>
> FALSTAFF—That can hardly be, Master Shallow. Do not you grieve at this; fear not your advancements; I will be the man yet that shall make you great.
>
> *King Henry IV, Second part*

A BROAD distinction may be made between two kinds of debt: money or goods lent in supposed benevolence, and money or goods lent for increase or profit. This book aims to deal almost exclusively with the latter kind of debt. The other, pertaining more closely to morals than to economy—though the moral factor enters into all obligations—is insignificant both in amount and in social importance in modern life.

Yet, because the motivation on the side of the borrower is essentially the same in both kinds of debt, and since the disposition either to pay or to default finds its origin in the same strength or frailty whether the debt be private or public, casual or recorded, with or without security, it will be useful to deal briefly with the primary kind of borrowing and lending which entails no demand of collateral, no employment of legal safeguard, and in which the matter of repayment is a hope always tinctured with a painful suspicion.

It is not necessary to dwell upon the distinction between

loans and gifts. In the loan there is clearly an expectation of repayment, usually at an agreed date. It is true that the lender is often mystified, after the passage of time, by the way in which the frontiers of loan and gift have imperceptibly moved toward each other, and even overlapped. But in this respect, of course, his chagrin will be proportioned to his experience.

The first entreaty between the borrower and lender of money partakes of the romantic quality of a love affair; and this is equally true whether the loan is to be wholly commercial or whether it is to be what is hopefully called a debt of honor. In the nervous approach of the borrower, and the instinctive wincing of the prospective lender, we see something very like the respective enthusiasm and coyness of swain and maiden. Not to labor further this simile, it is sufficient to say that the least fortunate ones in both emotional adventures are not necessarily those who say no; or who, lacking that firmness, take refuge in equivocation or flight.

It is a notable fact that the overtures toward a loan of money from one individual to another, on the basis of pure friendship or loving kindness, are always conducted in a low voice, even when there are no other persons near enough to hear. This semi-secrecy does not at all arise from a feeling on the part of the borrower that he is engaged in an unworthy activity. On the contrary, it can be maintained that his persuasion is rather that he is bringing to the lender an opportunity to enrich his spiritual life. The whispering earnestness would suggest this, just as it also explains why the assets of the deaf are nearly always of a negotiable sort.

The reasons for borrowing are numberless, but they all

come to the same point; a point which is not commonly apprehended either by borrower or lender. It is, that borrowing is nearly always a substitute for, and prevents the performance of, some virtuous or husbandlike act. If we consider even glancingly the disposition of borrowed money, we see how true this is. Debt usually displaces, in the conduct of the borrower, patience, or self-denial, or energy, or social adjustment, or initiative, or even the willingness to work. On the other hand, though he may not be aware of it, the successful borrower's vanity is enlarged and strengthened. In a world where the normal procedure toward contracting debt is either good collateral security or satisfactory endorsement, he may well feel that he possesses a singularly felicitous approach, or that he is greatly loved, or that he has touched a vanity which transcends his own. In any case, he has made a dangerous conquest, and a tragic one, if the response be derived from true friendship. I know it is the fashion to sneer at the platitudes of Polonius, but if loan does not often lose "both itself and friend," as Ophelia's father said, then the evidence is most illusory.

At the risk of being charged with levity, I shall set down a few of the more obvious steps in the prosecution of the technique of friendly borrowing, because, as we shall later see, the technique of professional or commercial borrowing will marvelously resemble these more personal transactions. I deal first with *need*.

The conviction of the borrower is usually sincere, that his necessity is so great that a refusal to comply with his request would mean a disaster of magnitude. This assurance of ur-

gency supplies the explanation, when the loan has been effected, of the brief state of ecstasy that he feels, and that even the lender shares. The gradual cooling of this ecstasy is an intrinsic part of the phenomenon of debt. Customarily, the sense of rapture does not linger with the lender, and in any case we may assume that in the borrower it has been wholly dissipated by the time the loan comes due.

Composedly to examine the facts would, of course, reveal to the friendly lender of money several things. One is, that a disaster which can be averted only through the loan of a moderate sum is a disaster which is more than likely to ensue at a later date. Another is, that if the sum is to be used to meet a pressing debt, the debt is only to be transferred from a peremptory creditor to a more lenient one, thus becoming a refunding operation in which friendship or acquaintance is to bear the load. Or, if the proceeds of the loan are to be used to buy something, it means that the lender is to be the unwilling purchaser of a commodity which he himself does not desire, or might find it ill-judged to acquire, and from which he can certainly expect no benefit. I say, to examine the facts would reveal these and other matters, but the incidence of debt is not always a matter of matured judgment or of prudence, as I shall aim amply to show, even when the debt is of the most strictly commercial variety. In the so-called friendly loan, reason hardly intervenes at all. But this is not to say that the impulsive kindness which prompts the lender to part with his property in the presence of another's plea of need is not a very real and soothing trait of human nature, even though it be, as Hume would have us believe, an act of

"confined generosity" arising from the artifice of social obligation.[1]

The urgency of the need being well established in the mind of the borrower, and successfully conveyed to the sympathy of the lender, another peculiar illusion enrays the uncommercial loan. This is the element of *time.*

I suppose no borrower ever admits to himself, though he may artfully suggest the contrary to the lender (usually in a humorous manner which is intended to meet and dispel this doubt), that he will require the accommodation for any considerable period. If the honest borrower were not sanguine, he would not be a debtor at all. His position at the moment is precarious, but for some reason, or for no reason, he expects a full tide of fortune before long. With the most cheerful debtors, repayment is alleged to be only a matter of days. I have known extreme cases where the accommodation was requested "for a few minutes, just until I go around the corner and back." It would be unfair to judge even this optimism as dishonest. The failure of the borrower to reappear means only that, when the corner was turned, he experienced a disappointment, or saw good reason to change his mind, or became lost in a crowd, or was detained by some act of God against which no contracts avail.

Those who borrow for the first time are likely to be precise

[1] Hume applauded the *sympathy* without making of it a *natural virtue.* "So far from thinking that men have no affection for anything beyond themselves, I am of the opinion that, though it be rare to meet with anyone who loves any single person better than himself, yet it is as rare to meet with one in whom all the kind affections, taken together, do not overbalance all the selfish."—*Treatise of Human Nature,* Book 3, Part II, section 2. Deftly this philosopher develops his proposition that justice derives from the balance between selfishness and confined generosity of mankind. Justice would be, thus, the manifestation of a reasoned admission of the benefits of social life.

about the date of maturity. "You will get this back on the first of the month, absolutely." It is not uncommon for the borrower to pause, after the word "absolutely," wondering whether that word conveys the amplitude of his determination. If he decide that it does not, he adds, "Never fear," or "Depend upon it."

A third emotional factor is the feeling of merit on the part of the borrower. When he approaches his benefactor, he has already convinced himself that what he is about to ask is not more than, and perhaps not so much as, he himself would freely do if the conditions were reversed. This is a sustaining warmth, a kind of inert benevolence, which justifies the request for the loan. The borrower does not go so far as to canvass the past, to recall friendly loans he has made. He merely inquires of himself whether he is the sort of man who would help a fellow creature in distress; and the decision that he *is* that sort of man does not violate his self-appreciation. Having decided this point, the idea of the loan begins to acquire the aspect of simple justice as well as humanity, and when the borrower says, "I would do as much for you," he not only states what he believes to be true, but he is half persuaded that, though he cannot recall the details, he *must* have done as much for the lender at some time. If we possess a virtue, it is beyond belief that we should not have somewhere employed it. Thus the loan at its inception has something, in the mind of the borrower, of an established courtesy or exchange of facilities. This concept, a plant of luxurious growth, leads to moral and physical complications at the period when the loan is about to mature.

In this cursory view of the technique of getting into debt

by the route of benevolence, I have not tried to set down any but the basic principles. It would be well worth the trouble of an acute commentator to study and describe the diverse attitudes of the entreaty, such as:

The *abrupt* borrower; he who swoops in and takes a loan by sheer surprise, the lender being only faintly conscious of what he is doing.

The *realistic* borrower; he who states his case with laconic sharpness, and makes it appear like a straight business deal.

The *prostrate* borrower; he whose situation is so appalling and whose distress is so apparent in his manner that the loan is effected partly through the fear of the lender that a fatality may occur in his very presence.

The *logical* borrower; he who takes high ground, either in biology, metaphysics or political economy, making it clear that the loan is justified in the *lumen siccum* of science.

The *whimsical* borrower; he who successfully entertains the tired business man with story and chatter, and may be said partly to earn the accommodation, as the actor earns his salary.

The *helpless* borrower; he who manages to reveal so little evidence of being able to earn his livelihood that he becomes, by degrees, a fixed charge upon the lender, at the same time avoiding the poor debtor's oath and loss of suffrage.

All these, however, are suggested not as principles of debt, but as devices or postures in the mechanism of getting into debt.

We now come to the more somber side of the debts of benevolence, or uncommercial borrowings. Since there is always the expectation of payment (else there is no loan, but a gift), a reappraisal of the circumstances begins very soon after the loan is effected. The lender often feels, soon after the

transaction, a sense of loss and possibly of shame. No matter how well warranted he may consider his benevolence to have been, his conviction is seldom strong enough to urge him to share his moral victory with his wife. He informs himself that he would gladly tell his wife about it if she knew all the facts; but he despairs of her ever receiving all the facts, perhaps because of their vagueness, perhaps because he rates the female sex inferior in kindness toward the race, reserving its wealth of affection for the family circle.

But the greater transformations take place in the mind and conduct of the borrower. Bear in mind that when he leaves the lender, money in pocket, the successful debtor fairly trembles in the excess of his emotion. This has become the best possible of all worlds; the creditor is a great hand of beneficence which has reached down from heaven in the nick of time; the debtor indulges in extravagant protestations, to himself, concerning the future. Of several things he is certain. The creditor shall have his due on the appointed day; indeed, it may be sooner. He will cut his cloth to fit the pattern of the obligation. If economy is indicated, economical he will be; if parsimony even be necessary, so.

The state which follows this afflation is one of restful passivity. The loan is forgotten or set far into the background. If something puts the debtor in mind of fleeting time, he will say, "That is all right. I know what I am doing. I can manage my affairs quite well, thank you." This is the brave word, but with that first sour reminder that the time of repayment is hastening toward him, the debtor begins to consider his position. He discovers, rather gloomily assessing his own

plight rather than that of his creditor, that he is not going to be able to pay. What then?

To protect his dignity, his good estimation of himself, and his moral position, there fortunately come to the mind of the debtor some very singular aspects of this debt, which make it quite different from any other debt.

The first consideration is that, he being who he is, and the creditor being who he is, the benevolence was not all on one side by any means. It must have been a distinct pleasure, if not a spiritual uplift, for the creditor to be allowed to lend him the money, and this especially if the creditor happens not to be of a notably liberal disposition. If the lending constituted an act of merit, certainly the borrowing must be almost equally praiseworthy, for there couldn't have been one without the other. If the honor and the beneficial experience accruing to the creditor be not sufficient, then—

What about the economic position of this debtor and this creditor? This creditor obviously is a man of greater means than this debtor. If this were not so, the loan would have been unlikely. If it were true at the time of the loan, it is more true now, for the borrower is at least the sum of the loan poorer than he was then. Is there, or is there not, an obligation of those who have much, to share with those who have little? The rich say not, but who are the rich, and how did they become rich? Will their conduct bear investigation? The debtor begins to think it will not; chiefly because he knows his own conduct *will* bear investigation, and he is *not* rich. But—

If the creditor be not rich, then, thank God, he will understand, if the loan be not repaid. For he knows by bitter ex-

perience how hard it is to get anything ahead in this world. He must indeed know this, for if he had not got at least the sum of the loan ahead, he could not have lent it. Then, also—

Things have changed so much since the loan was made. Fortune is a wilful jade, who goes about victimizing and fleering at human beings, especially debtors. The prospects were good when the money was borrowed, but the sun did not shine as was expected: it rained. The question naturally presents itself to the debtor: why should the creditor imagine that he should be free from evil manifestations of fate? Looked at in a practical way (and the debtor, whatever his former emotional state, feels that the time has now come to help the creditor face facts like a man), was the loan not after all a sort of partnership? It may not have been so stated, but what *reasonable* mind could conclude otherwise?

With these and some other considerations in mind, the debtor now presents his case to the creditor. If the creditor accept these explanations as valid, a new upsurge of good-will and understanding takes place. The creditor establishes himself as a man of both imagination and goodness. He becomes the ideal creditor, the philosophic lender, the man who can see farther than the end of his nose. This creditor perceives that, in lending to this debtor, he has involved himself in a chain of circumstances over which nobody has any control; it is kismet, and whatever has taken place between the time of lending and the promised date of repayment, it is not the debtor's fault.

But some creditors are not as easily persuaded as this. They hold narrow views upon obligations. They try to befog the issue with embarrassing questions and specious considerations.

This frigid forensic stubbornness, in the light of known human selfishness, the debtor may understand and forgive: what he finds it difficult to extenuate is the bald fact that he is expected to pay, when it is obviously embarrassing. This begins to look like persecution.

The debtor now remembers certain unpleasant characteristics of his creditor which he had hitherto generously overlooked. Is it possible that he is a wolf in sheep's clothing? The debtor dislikes to believe this, but he cannot fail to recall that, the last time they met in the street, the creditor gave him some very peculiar looks. Also, in a roundabout way, it has come to the debtor's ears that doubts and reflections are being publicly cast upon his integrity. These, no doubt, have emanated from a *certain* source. It will bear looking into, for if the creditor presumes to take such an attitude over a matter of filthy lucre, how could he be trusted in more important matters? Gradually the debtor is forced to conclude that he has been dealing with the wrong man. That innocence of heart which led him to accept a favor from a person in whom he felt implict confidence has been betrayed. This is a dose of aloes, this disillusionment about friendship, compared with which his lack of funds is a slight chagrin. A certain material weakness of position prevents him from taking action against the creditor, but at least he can show his resentment by never, never accepting any more favors from him, no, not even though the creditor should offer him money on bended knee.

There is no way of knowing the extent of "friendly" loans made throughout the world, year upon year. Certainly the optimist would like to believe that the sum total of these

benefactions is very great, and that human nature is uplifted by the general extinction of such debts of honor. It is obvious that every default upon such trusts sours the milk of kindness, and makes it more difficult for the deserving man in need to obtain the only sort of aid his lowest fortunes will admit. The appearance of the professional money-lender, as early as any written history, would suggest that the "friendly" lenders had experienced some of those curious lapses of memory that attack beings when faced with the alternative of enjoying either a moral or a physical victory. A sense of justice and a keen appreciation of the social agreement would suggest that debts of honor be paid as soon as possible. The professional money-lender preferred to inspect the risk and to rely upon his rights under the contract.

The coming of usury-lending doubtless produced an effect in the world of debt, similar to organization of almsgiving through charity institutions in the field of poverty. Those who did not like to risk their money or their goods, either in benevolence or for profit, could, with some relief, direct their needy acquaintances to the door of the debt-merchant, as the importuned citizen refers the mendicant to the "authorities" and soothes his conscience with the thought that charity should be on a scientific basis, and that indiscriminate giving is really an offense against the deserving. Friendship need not now be imperiled by the thrust of an awkward pragmatism. "Borrow from the established specialist," said the possessor of wealth. "Then you and I shall have none but agreeable social relations; your debt will be on a clear and practical basis."

It must mean something that the usurer, from the very beginning, was detested by the borrowers and was an object

of contempt on the part of those whom he indirectly served by relieving them of an embarrassing dilemma. The bitterness of the money-lender, hated and despised, but gladly sought, has never been better expressed than by Jeremy Bentham, in what may at a glance be judged a tirade of pessimism, but which may be read with interest, and with varying emotions, by the debtor and creditor of today:

> The business of a money-lender, though only among Christians and in Christian times a proscribed profession, has nowhere, nor at any time, been a popular one. Those who have the resolution to sacrifice the present to the future, are natural objects of envy to those who have sacrificed the future to the present.
>
> The children who have eat their cake are the natural enemies of the children who have theirs. While the money is hoped for, and for a short time after it has been received, he who lends it is a friend and benefactor: by the time the money is spent, and the evil hour of reckoning is come, the benefactor is found to have changed his nature, and to have put on the tyrant and the oppressor. It is an oppression for a man to reclaim his own money; it is none to keep it from him.
>
> Among the inconsiderate—that is, among the great mass of mankind—selfish affections conspire with the social in treasuring up all favor for the man in dissipation, and in refusing justice to the man of thrift who has supplied him. In some shape or other, that favor attends the chosen object of it through every stage of his career. But in no stage of his career can the man of thrift come in for any share of it. It is the general interest of those with whom a man lives, that his expense should be at least as great as his circumstances will bear: because there are few expenses which a man can launch into but what the benefit of them is shared in some proportion or other by those with whom he lives. In that circle originates a standing law forbidding every man on pain of infamy to confine his expenses within what is adjudged to be the measure of

his means, saving always the power of exceeding that limit as much as he thinks proper: and the means assigned him by that law may be ever so much beyond his real means, but are sure never to fall short of them.

So close is the combination thus formed between the idea of merit and the idea of expenditure that a disposition to spend finds favor in the eyes even of those who know that a man's circumstances do not entitle him to the means. And an upstart whose chief recommendation is this disposition shall find himself to have purchased a permanent fund of respect to the prejudice of the very persons at whose expense he had been gratifying his appetites and his pride.

The luster which the display of borrowed wealth has diffused over his character awes men during the season of his prosperity into a submission to his insolence: and when the hand of adversity has overtaken him at last, the recollection of the height from which he is fallen throws the veil of compassion over his injustice.

The condition of the man of thrift is the reverse. His lasting opulence procures him a share, at least, of the same envy that attends the prodigal's transient display: but the use he makes of it procures him no part of the favor which attends the prodigal. In the satisfaction he derives from that use, the pleasure of possession and the idea of enjoying, at some distant period which may never arrive, nobody comes in for any share.

In the midst of his opulence he is regarded as a kind of insolvent, who refuses to honor the bills which their rapacity would draw upon him, and who is by so much the more criminal than other insolvents, as not having the plea of inability for an excuse.

Bentham may have had a collection of withered I O U's in his own desk-drawer. However that may be, in a modern world which prides itself upon the extent and the complexity of its methods for getting into debt, we may pause for an amused smile at the basic simplicity of the mechanism. The decaying

optimist who proposes that his credit with his friend should amount to at least ten dollars, and proceeds to realize on his conclusion; and the man who speaks glowingly of the ability of the United States to "stand" a public debt of fifty to seventy billions of dollars—are brothers under their skins.

Since practically all modern debt is represented by interest-bearing obligations, and money-lending for profit has become the business upon which all production and commerce seem to depend, it seems worth while briefly to consider the history of this use of capital and the sure growth of its esteem in the reason, if not the affections, of civilized man.

In ancient Greece it took the utmost oratorical skill of a Demosthenes to rescue Phormio, a money-lender, from the prejudices of an Athenian jury, even though the jurymen knew the prosecution was sheer roguery. "Men of Athens, Phormio *begs,* and *beseeches,* and *implores* you to save him!"[2] Twenty-three centuries after, in the United States of America, the great central money-lenders, controlling billions of dollars of fiduciary capital, are so impregnably intrenched in a popular opinion of their essentiality, that the most colossal credit disaster ever known—that which began in 1929—has produced hardly a single important successful prosecution for fraud or conspiracy, out of a condition where both fraud and conspiracy were bare-faced and notorious.

[2] Demosthenes, "Pro Phormio."

IV

THAT WHICH PLOWS ON SUNDAY

> And if thy brother be poor, and powerless with his hands, at thy side, thou shalt take his part upon thee, to help him, as thy proselyte and thy neighbor; and thy brother shall live with thee. Thou shalt take no usury of him, nor anything over and above, and thou shalt fear thy God.
>
> *Leviticus, xxv.*

THE modern world is not inclined to disparage its own attainments; and wherever it finds itself in conflict with former habits of thought or activity, it tends to presume that the earlier inhabitants of the earth were either feeble or stubborn, or both. This conclusion is perhaps natural enough, but is not necessarily accurate.

In no department of social life is the cleavage between past and present more definite than in the field of economics; and in this field the sharpest fracture seems to occur in the attitude toward debt, and toward the handmaiden of debt, usury.

In the discussion that follows, the word *usury* will be used in its original sense: any profit, however great or little, taken for the loan of money. Wherever "excessive" or "illegal" interest is meant, which is usury in the modern sense, it will be specifically so stated.

Those of the modern business world who are unacquainted with the earlier philosophic and religious attitude toward usury, will be pained to learn that this form of thrift was not always held in such high esteem as it is today. If the ancients

had little knowledge of the dynamic power of debt in commerce, the cultivation of which has resulted in a state where production, in order to exist at all, must be the fruit, not the basis, of a mortgage; if they were hardly aware of the truth, stated by Mr. Lecky, that "national debts are the very pillar of the political system," and the more personal truth that the ability to borrow, rather than the amount possessed, is the measure of a man's wealth: still less were our remoter ancestors convinced that money-lending at profit per cent was the summit of dignity and solid achievement, and the money-lender a bulwark of the state and a pattern for the aspiration of youth. Such a complete reversal of opinion as has taken place upon this subject, is hardly to be matched in the entire history of social change. From the phalanx of Alexander to the trenches of the Somme, and from the ethics of Socrates to the present instruction of Christianity, the physical and moral ground traversed is after all not very great. But that only three centuries ago the theologians were still thundering against interest-taking as being akin, in sinfulness, to robbery, murder and incest, and fully supporting the claim of Aristotle that money is naturally sterile and not honestly entitled to increase—here is a phenomenon worthy of inspection!

If the doctrine of Aristotle is a fallacy—Lecky calls it "an absurdity of Aristotle"—how did it happen that it remained unchallenged by the Greek and Roman thinkers, and how did it happen that, when it was brought into the Church by St. Thomas Aquinas, it was vigorously supported by twenty-eight councils and by seventeen popes? The notion that usury was contrary to the law of nature did not dissatisfy Plutarch, Seneca, or Cato. Quite the contrary. Cato, that austere and

plain-spoken planter, who called spades spades, was once asked:

"What do you think of usury?"

"Pray, what do I think of killing a man?" he replied.

In the preface to his essay on agriculture, Cato remarked that "lending money at interest has various advantages, but it is not honorable." He pointed out that "our forefathers condemned a thief to pay twofold, but the man that takes interest was condemned to pay fourfold, so he was twice as bad as the thief." This reasoning is not impeccable, but it serves to show that Cato had a precedent of long standing for his severity. In a comedy of this period, a money-lender is told that he is on a par with the *lenones* (pimps).[1]

As to the moral question involved in the taking of interest, there seems to have been as complete unanimity among the philosophers as there was later among the theologians. Indeed, it was a favorite slander among the bitterly competing sophists and lecturers, to say that such and such a rival was, or had been at some time, a usurer. Aristoxenus made the accusation against Socrates. If it was true, that patient husband must have fumbled away his profits, for at the time of his trial and conviction he told the jury that he could possibly pay a fine of one mina of silver (say twenty dollars), and Socrates does not appear to have been the kind of man that would conceal either his opinions or his assets.

It would be easy to multiply to tedium the scathing denun-

[1] It is true that Cato himself lent money on marine risks at a high rate of interest, and so did several other moralists—Zeno among them, according to Diogenes Laertius—but not only did both the Greek and Roman law permit this higher rate, but I am inclined to think that, in view of the hazards of ocean trade of those times, the advance of money was viewed more as a partnership than as a loan, and consequently the return, if there was any, as more in the light of trading profit than of interest.

ciations of usury and usurers by notable Greeks and Romans; it should be enough to say that there was never a voice raised in defense of them. Yet, of course, the business went on just the same. The money-lender for profit was despised—and tolerated. There were waves of legislation curbing or prohibiting usury, regulating the statutory interest; and in every period when the debt-burden had become too great to bear, the money-lender stood out from the wealth-class in general as the chief target of the clamors of the debtors. By the modern economist, this distinction to the disadvantage of the usurer is seen as "arising *from the ignorance of all uncivilized men* about the laws that regulate the increase of wealth,"[2] but it seems a little unfair to call Aristotle an uncivilized man, or Plutarch, or Cato, or Cicero, or, in a later period, Francis Bacon —and the best the Lord Chancellor of England could say for usury was that it unfortunately couldn't be helped. Was Bacon ignorant of the laws that regulate the increase of wealth? He was the father of scientific method. He preferred to view everything in the "dry light." He said that few had spoken of usury *usefully* (*solide et utiliter*). "To speak of abolishing usury is idle," he agreed. "All states have ever had it, in one kind or rate, or other. So that opinion must be sent to Utopia." But, "though usury is the certainest means of gain, it is one of the worst—as that whereby a man doth eat his bread in the sweat of another man's face." And he concludes, reluctantly, "I say this only, that usury is a *concessum propter duritiem cordis* [a thing allowed because men's hearts are hard.]"

[2] Lecky, *The Industrial History of Nationalism*. One wonders whether Lecky really thought civilization began with large-scale industrialism.

The pagan conception of the immorality of usury having been implicitly accepted by the Fathers of the Church and supported with enthusiasm by the medieval theologians, the taking of interest was not only an ecclesiastical crime, but, so far as the Church could affect the conduct of states, it was also a civil offense. But, though Aristotle could toss a dictum into the philosophical arena and walk away with unconcern, we find the early churchmen laboring to elucidate the reasons underlying the principle. And in their explanations we may incidentally perceive how powerful in early theology was the influence of Roman law.

Now, the Roman lawyers differentiated between a *commodatum* and a *mutuum*. In the former, the borrower was obliged to restore the very thing that he had borrowed; in the latter, the loan was intended to be used up, or consumed, so that the borrower was expected to return only the exact equivalent. The lending of money was a *mutuum,* because the identical thing, having left the hands of the borrower, could not be returned. The churchmen seized upon this distinction, and worked upon it a great variety of subtleties. For example, you might not see at once why a man could morally receive rent for the use of his horse but committed a sin in renting the use of his money. But the reply is that when a farmer rents a horse for plowing, he does not really rent the horse, as a horse, but the capacity for plowing that resides in the horse. He rents its usefulness. When he finishes plowing, the farmer returns the identical horse, pays for the *usage,* and the *commodatum* or accommodation is complete.

It is otherwise, said the schoolmen, with money. Money, having no value except in its usage, and being consumed in

the usage, and being incapable of producing anything by itself, is merely an inert thing borrowed for the purpose of commanding capital goods. This having been achieved, it is sufficient for the borrower to return the exact equivalent of the sum lent. The lender now has exactly what he had before, in terms of exchangeable wealth, undiminished in power, a case unlike that of the horse that was rented, whose capacity for work is limited. To exact more than this loaned sum, said St. Thomas Aquinas, would be to ask pay for something which did not exist, or for a service that had not been performed. I grant this is finely spun casuistry, and of the sort which, earnestly pursued, is likely to give one a headache; but it should not be rejected as nonsense merely because it is not crystally and instantly clear, or because it infringes conventional modern ideas.

But another question arose when the creditor could show that in exacting interest for the use of his money he was not doing so with the intent to profit, but merely to reimburse himself for an actually sustained loss. If a man was engaged in business, and out of friendship withdrew some of the money from that business to lend to a friend in need, could he morally stipulate that he should have, besides the return of his principal, an amount sufficient to cover his loss? Or if a man were about to transact some trading, and were willing to divert some of the money he intended to use thus, in order to let his friend do a bit of trading, could he charge enough for the use of the money to make up the difference in his own profits? These cases were discussed at length by the theologians, who finally admitted that a modification of the rule could be made to cover them, though the sterner figures among the Fathers

frowned upon such indulgences—and perhaps wisely—on the ground that a large devil can enter by a very small knothole.

There must always have existed, in the prejudices of men, a feeling that loans made for strictly commercial purposes, where the lender hoped to profit from the transaction, were not in the same category as loans that arose from the poverty or necessity of the borrower. The Fathers of the Church admitted no difference, however. Indeed, the borrower at interest was sinful as well as the lender, though naturally the denunciations were directed against the latter, and extreme need was considered as lightening the offense of the former. It is obvious that the Church wished to admit as few exceptions as possible, and it was not until 1682 that Le Coreur, a Catholic theologian, could dare to suggest in a treatise that a moderate rate of interest might be taken for commercial loans, but not upon those that originated in dire necessity.

Apart from pagan authority, it is easy to see why the Church clung so long and firmly to its attitude. The earliest adherents to the Christian faith were hostile to wealth and rejoiced in their poverty. In both Italy and Greece they had under their eyes constantly the moral degeneration which could be traced, in some degree, to the passion for profit and luxury. Since they gloried in the possession of immaterial benefits, and were persecuted by those whose desires were distinctly opposite, it was natural that they should regard wealth, in itself, as an enemy. But more bitterly they would detest that kind of wealth which seemed to arise from the exploitation of the frailties or misfortunes of the weaker. True, they may have confused, to some extent, cause and effect. Much of the suffering caused by the severity of Roman law against the insolvent bor-

rower might have been found, on cool examination, to arise from that very craving for material things which the primitive Christians abhorred. But if they saw this, no doubt they argued that the tempter was worse than the fallen, and the principle was the begetter of the particular sin.

Also, they had clearly before them the injunction from Exodus: "If thou lend money to any of my people that is poor by thee, thou shalt not be to him as an usurer, neither shalt thou lay upon him usury." They saw in Leviticus: "Take thou no usury of him, or increase," and "Thou shalt not give him thy money upon usury, nor lend him thy victuals for increase." The Psalms told them that "he that hath not given his money unto usury" would "ascend into the hill of the Lord." And they were reminded of the divine Release described in Deuteronomy, when the unpaid debt at the end of seven years should be forgiven.

The time came, however, when the Church could no longer withstand the pressure exerted from the outside world, bent upon thriving in new and more accelerated ways. Lecky is undoubtedly correct in his assumption that the trading classes, who were the purse and fist behind the Reformation, had made up their minds that they would have no more of such unbusinesslike nonsense. They found a stout defender for usury in John Calvin, who, according to the economist McCulloch, has the "high honor of having first detected the fallacy of Aristotle and the Fathers," discerning that while money does not produce money, "that which can be purchased with money does produce after its own kind."

Calvin sneered at the simplicity of Saint Ambrose and Saint Chrysostom, saying, "What else is it than to treat God as a

mere child when we judge of things by mere words, and not from the nature of the thing itself?" Usury, he declared, is nowhere forbidden in Scripture; the Mosaic law was purely political, applying only to Jews. He would, indeed, not have the poor oppressed by inhumane exactions, but otherwise there was no sin in it. It is significant that money-lending at interest was first permitted in England, by law, in the time of Henry VIII; so without ascribing to Calvin any insincerity, it is apparent that it must have given some pleasure to the reformers to assail at once, and in two estates, a doctrine which had so long been unequivocal in the parent church.

Nor was it disingenuous of the Catholic Church to make its peace with a new world as best it might. It could serve no good purpose to alienate the affection and respect of those who had decided to desert a tradition, or a counsel of perfection, which after all was not vital to the faith. Benedict XIV issued an encyclical letter in which, after making some concessions and avoiding some controversies, he summed up the position of the Church against usury, and gave no ground in supporting the time-honored principle; but this was the end of the battle. Only a few "fanatics," as one writer generously calls them, bob up at intervals to attempt to renew an interest in the moral aspect of the question.

Once the bars were down, an eager file of new-thought economists strode through. There was a great deal in the ancient conception of wealth and production, as well as of the social order, that was sharply challenged as Business grasped the reins for which it had so long hankered; but the chief verbal ferocity and derision was directed against the teachings about usury. Turgot, Bastiat, Bentham, Hume, Montesquieu—

to name a few without attention to chronology—gleefully paraded what they called the puerility and contradictions of the Aristotelian dogma. One economist, in rapture, stated that "as long as men derived their notions of duty from authority and tradition, they would adopt one conclusion; when they began to interrogate their own sense of right, they would soon arrive at another." This statement is rather remarkable for the delightful assumption that the interrogation by human beings of their own sense of right was an exercise that had been delayed until the Reformation.

Jeremy Bentham, erratic, splenetic, but a brilliant jurist, was an Englishman who never minced words. He had a retort to Aristotle that gave him no end of satisfaction. "If the borrower employs borrowed money," he said, "in buying bulls and cows, and if these produce calves to ten times the value of the interest, the money borrowed can scarcely be said to be sterile, or the borrower a loser." Later, Lecky quoted this challenge with great relish, and averred that "it is enough to make one ashamed of one's species to think that Bentham was the first to bring such a simple refutation into notice." The truth is, Bentham was not the first; but never mind that. There is a possibility that Mr. Lecky was too readily "ashamed of his species." What Aristotle said (and nearly every economist in modern times seems to have taken a curious delight in distorting the clear statement) was not that money was sterile in artifice, but that it was *sterile by nature*. He did not say that money *could* not beget money: he said that it in justice should not. He was not pronouncing an axiom of what we now call "political economy"; he was posing a moral-political ques-

tion. His words are so clear that they can be misinterpreted only by one who wishes to misunderstand:

"Money," he says, "was devised for the sake of exchange, but usury multiplies it. And hence usury has received the name of *tokos,* or produce; for whatever is produced is itself like its parents; and usury is merely money born of money: so that of all means of money-making, this is most contrary to *nature*!"

Now, we may agree with Aristotle or we may disagree with Aristotle, but we must not talk nonsense about a straw figure which we set up and call Aristotle. If Bentham had said, "I utterly and profoundly and wholly and absolutely disagree with Aristotle's dogma," he would have been quite within his rights. But when he talked of the increase in calves, bred from bulls and cows bought with borrowed money, as though the money were the generating factor, he should have recalled that cattle were bred and cattle-owners waxed prosperous long before money was invented, and that producing calves is a habit that cows possess, usury or no usury. In short, Bentham not only misreported what Aristotle said, but he came very near to proving that Aristotle was right even if he had said what Bentham *assumed* he said.[3]

The charge is constantly made by the economists of the seventeenth and eighteenth centuries that the theologians invented and distorted and garbled to prove their assertions. I am not sure that the same charge cannot be made against the economists, and particularly against those who have felt impelled to

[3] Jeremy Bentham's great-grandfather, Brian Bentham, was a prosperous pawnbroker in the City of London. John Bowring, Bentham's biographer, hastens to say that "the profession was far more elevated than now."

support the taking of interest upon loans as a moral procedure.

For example, we have the assertion, so confidently made, that a warrant for usury is to be found in the parable of the talents (Matthew, xxv) and the similar parable of the pounds (Luke, xix). Although there are some differences in details, the story is substantially the same in both gospels. Choosing, then, the parable as given in Matthew, we see that a certain nobleman, going away to a far country, called in his servants and distributed some money among them, to one five talents, to another two talents, to a third, one talent. He told them to "trade" with this money while he was away. When he returned, he called the servants in for an accounting. One had doubled his five talents; another had doubled his two talents, but the third, for reasons which he explained, had hoarded his one talent by burying it in the ground. When scolded for this lack of business ability, the unprofitable servant said:

"Sir, I knew thee, that thou art a hard man, reaping where thou hast not sown, and gathering where thou hast not strewed: and I was afraid, and went and hid thy talent in the earth."

His master answered him: "[Thou sayest] thou knewest that I reap where I sowed not, and gather where I have not strewed. [If that is what thou didst really think], thou oughtest therefore to have put my money to the exchangers, and then at my coming I should have received mine own with usury." I have properly put several words in brackets in order to make clear sense of what would otherwise be misleading. The Greek word ᾔδεις in the original implies a hypothesis which the early translators perfectly understood, but which might be missed by the modern reader. The nobleman, far from admitting that he was a usurer, expressly denies it. Had he been a

usurer, he would not have told his servants to *trade* with the money, but rather to put it with the bankers, which would have been safer. It is true that in reciting this parable Jesus did not say a word in condemnation of usury; but neither did he condone it: he merely recognized its existence. The point that he was making to the disciples had nothing whatever to do with either trading or investment: it was simply a matter of being faithful to a trust, obedient to orders.[4]

But if the New Testament maintains silence upon the subject of interest, not so with Dante Alighieri. In the *Inferno* our poet pictures an especially terrible place where the sand was furnace-hot, and "with slow fall, fire was raining in dilated flakes." In this unpleasant locality, on the outermost rim of the seventh circle, sundry of the earth's departed were sitting, their grief gushing from their eyes. Upon the neck of each was hanging a money-bag, and upon each money-bag was the heraldic device of the noble family from which he sprang. One, in particular, had for his device three eagles' beaks. This thirsty wretch was one Giovanni Buiamonte, late of Florence. "He surpassed all others of his time in usury," says Benvenuto da Immola.

We gather that Dante viewed usury with disfavor.

[4] On the other hand, it must be said that unless the words "lend, hoping for nothing in return" (Luke, vi, 35) are to be interpreted as a pronouncement of Jesus against usury, there is no condemnation of interest-taking in the New Testament.

V

WHAT ARISTOTLE MEANT

> ANTONIO—Shylock, albeit I neither lend nor borrow
> By taking nor by giving of excess,
> Yet, to supply the ripe wants of my friend,
> I'll break a custom. Is he yet possessed
> How much you would?
> SHYLOCK—Ay, ay, three thousand ducats.
> ANTONIO—And for three months.
>
> *Merchant of Venice, Act I, Scene 3*

MARCUS CRASSUS, consul with Pompey in 70 B.C., was never seen to laugh. He was one of the greatest creditors of the Roman world. The cynical may find some connection between these two statements.

Crassus, though a financial genius toward whom wealth flowed as steel filings to a magnet, was not a usurer. He lent money to his friends without interest, according to Plutarch, "but called the loans promptly upon the due date, so that his kindness was often thought worse than paying the interest would have been."

In declining to accept profit upon loans, Crassus was partly guided, of course, by his keen political instinct. He craved power, and he knew that one of the easiest roads to power is through placing prominent men under obligation. But also Crassus was merely following the accepted *noblesse oblige* of antiquity, which frowned upon commercial money-lending by those who bore honored and aristocratic names. It was this same chivalry which forbade the Roman senator to take fees

for pleading the causes of his clients in court; a nicety of conduct which has curiously been handed down, as a charming fiction, to the English barrister.

As in Athens the sordid business affairs were left to the Metics, being deemed unworthy of the energies of the proud citizens of the demes, so in the early days of Roman agriculture, war and politics were the preferred activities of the patrician class. With the rise of the traders to political power, much of this exclusiveness was jettisoned, but though the Romans were a far more practical people than the Greeks, there always remained, down to the very last, the feeling that "the best people" didn't go in for buying or selling, or manufacture. Cicero's letters to his student son pretty well show the attitude of the well-born man. Young Marcus was to understand that if he went into merchandising, it must be in a large way—no retailing—and then only with the idea of laying up quickly a good fortune to be spent in buying a country seat. He was not to be a handicraftsman; that was a mean calling. He could be an architect or a doctor, though neither was recommended. But there were two occupations he must never dream of: money-lending and tax-gathering. "Those," said the paternal counselor, "bring one a general hatred and ill-will." It cannot be said that either occupation, even in this present age, is a swift means of cultivating friendships.

So likewise, in the Middle Ages, when the Church was thundering its prohibition of usury, the tolerated violation of the ecclesiastical and civil laws was left to those who were socially disabled and had no souls to lose. This meant, primarily, the Jews.

That the usury laws were constantly evaded is not surprising.

In the first place, no laws affecting human conduct can be generally enforced unless a sufficient number of people understand and sincerely support their moral or social base. The dogma against usury never was clear enough, to enough people, to give it executive force. Though the subscription of certain Catholic princes and kings was pious, the majority of the rulers of Europe submitted and winked the other eye. If usury were really prohibited, they reasoned, where were *they* going to borrow money? The pageantry and even the cuisine of royalty cost a great deal, and there is a limit to the taxation a people will endure. Even the best subject is disinclined to entrust his money to the crown without profit: and probably the very best subjects are those who never have any money to lend.

The ruling classes therefore had recourse to those who, by taking usury, could lose no social prestige because they possessed none; could part with no hope of joys after death, because they were forbidden to entertain any; but, best of all, being violators of the law, could be used as treasuries as long as they produced money, and then denounced as criminals and heretics. It was a most convenient arrangement for the royal or lordly debtor, when he could cancel both the debt and the creditor with one swing of the axe. Some governors made it a law that the property of usurers should, upon their death, fall to the crown. This arrangement completed a circle that was miraculously fortunate for the borrower. No doubt it was to suppress this invitation to murder that the honest prelates made borrowing at usury equally sinful with lending; but the point was seldom pressed.

On the part of the lowlier people, who were greater sufferers

from usury, there was a hatred of usurers coupled with a dislike of any laws against usury. This position arose purely from ignorance and wilfulness, and that weak optimism on the part of people which leads them to think that if they have finally to flee from their creditors, the doors of some Ephesian temple of Artemis will swing open for them. Jeremy Bentham, in his *Defense of Usury,* the ablest tract ever written on that side of the question, makes even a more severe indictment against the debtor. "While the money is *hoped for,*" he says, "and for a short time after it has been received, he who lends it is a friend and benefactor: by the time the money is spent, and the evil hour of reckoning is come, the benefactor is found to have changed his nature, and to have put on the tyrant and oppressor. It is an oppression for a man to reclaim his own money: it is none to keep it from him." These are the words of disillusioned asperity; but it is somehow hard to avoid the conclusion that, from unrecorded time to the present, the enmity of most borrowers has been directed against the money-lender, not as a taker of interest, but as a man who wants his principal back.[1]

As from the days of Thespis downwards the canny playwright and actor could count on a good box-office if his villain were a usurer, it is clear why the dramatists of the last five centuries so often chose a Jew as the target for the rabble audience. Even after the Lombards and the Florentines came to rival the Jews as usurers, there still remained the religious passion to be worked upon. Shylock is not the type, but the

[1] Benjamin Franklin was the creditor of a Pennsylvania man who had for seven years ignored reminders of his obligation. "It seems," said the sage of Philadelphia, "that it is against his principle to pay the interest, and against his interest to pay the principal."—*Letter to Jane Mecom, 13 January, 1772.*

exception. The conventional monster exhibited for the delectation of the gallery gods of the sixteenth century (most of whom had had personal experience with the pains of paying-out-of-income) is seen in Christopher Marlowe's *Jew of Malta.* Barabbas exults in his diabolical practises: after telling of his success as a merchant:

> Then, after that, was I an usurer,
> And with extorting, cozening, forfeiting,
> And tricks belonging unto brokery,
> I filled the gaols with bankrouts in a year,
> And with young orphans planted hospitals;
> And every moon made some or other mad,
> And now and then one hang himself for grief,
> Pinning upon his breast a long great scroll
> How I with interest tormented him.

This is mere rant, and, as poetry, decidedly low-grade. Kit Marlowe knew it well enough, but he also knew that it would delight the hearts of that part of his audience which had writhed under the necessity of paying for the dead horses of debts.

From the earliest times of which we have any record, down to the final discomfiture of the moralists in the industrial age, the legislative activities in respect of usury have been of two kinds: first, the flat prohibition of interest-taking; second, the control of the rate of interest.

Tacitus tells us that "usury, it must be admitted, was an early canker of the Roman commonwealth, the frequent cause of tumult and sedition." So it had invariably been with earlier governments. The chief reason why Solon was called upon to administer laws to the Athenians seems to have been an im-

pending revolution, of which the clear cause was the hopeless subjection of the debtors by the creditor class. "In the first ages of the commonwealth," Tacitus proceeds, "interest of money was arbitrary, depending upon the will and pleasure of the opulent; but by a law of the Twelve Tables it was reduced to one for the hundred. More was declared illegal."

By the words "one for the hundred" Tacitus means one per cent a month, or twelve per cent yearly; and if we allow for the difference in the value of capital in antiquity, we find that this rate corresponds to the modern six per cent per annum. Indeed, it is worthy of note that, if we set down the rates of interest as we find them recorded in all countries that have left us a record, making due allowance for times of peace and times of war, and exceptional periods arising from whatever cause, and weighting the index factors for changes in the value of capital—we shall get about six per cent.

The maximum rate of interest of the Twelve Tables was reduced by half later; and finally (Roman year 412) usury was definitely forbidden. From that moment, the experience of the Romans was precisely like that of any other people who have ever prohibited the taking of interest. The sequence is painfully identical in every case: first, a rigid enforcement of the decree; second, the evasion of the law through cunning devices by those who wish to borrow and those who wish to employ their capital profitably; third, the relaxation of the prosecution, but with no admission that the law is a failure; fourth, an utter disregard of the law, which becomes a dead letter; fifth, a shrill cry from the debtors that they are sunk in semi-slavery to their creditors; sixth, the bawling of demagogues who wish to rise to power on the grievances of the mass;

seventh, a change in government, the wiping out of some part of the common debt by a levy upon capital, and new arrangements for the conduct of usury or a renewed prohibition of it. So inevitable is this sequence that, if a man could have the longevity of Methuselah, it would pay him to be never out of debt, for he could count on a political upheaval which would relieve him of his burden every so many years.

So, in the Roman republic and empire, the pendulum swung back and forth, first permitting, then denying usury; now fixing one minimum rate, now another. In the reign of Tiberius the complaint was brought before Gracchus, the prætor, that the burden of usury upon the poor was intolerable. Gracchus took up this hot poker by its cooler end and deftly handed it to the Senate. As most of the Senators were either usurers or heavily in debt, they uttered some profound words that meant nothing, and referred the whole business to Tiberius.

Tiberius bears a bad reputation, but even his enemies never accused him of avoiding the responsibilities of legislation. He promptly granted eighteen months for creditors and debtors to clean up their affairs—to obey the law as it stood; which was to say, to end usurious loans. Naturally this Spartan command produced difficulties. Tacitus, again, gives a moving account of them:

> The want of current money brought on a new scene of distress. Creditors pressed to have their accounts balanced, and judgment was signed against such as stood indebted. Their effects were sold, and all the specie was either carried to the public treasury or swallowed up in the coffers of the prince. To alleviate this inconvenience, the Senate ordered, by a decree, that two thirds of each man's debt should be secured on lands in Italy. But still the credi-

tors claimed the whole of their demand, and the debtor, by consequence, was reduced to the brink of ruin. He wished to save his honor; the necessity pressed; meetings were held, supplications were tried; but the law took its course. The tribunal of the prætor resounded with complaints, and noise, and lamentations. The project of obliging the debtor to sell his lands, and the creditor to purchase, instead of healing the mischief, made it worse. The usurers lay in wait to buy at a reduced price, and for that purpose hoarded up their money. The value of lands sunk in proportion to the number of estates on sale, and the debtor was left without resource. Whole families were ruined; their credit was destroyed, and every prospect vanished.

Tiberius interposed with seasonable relief. He opened a fund of one hundred thousand great sesterces, as a public loan, for three years, free from interest, on condition that the borrower, for the security of the state, should mortgage lands of double the value. By this salutary aid public credit was revived. The money, which had lain in private hands, began to circulate; and the order of the Senate, directing the sale of land property, fell into disuse. *Like most plans of reformation, it was embraced at first with ardor; but the novelty ceased, and the scheme ended in nothing.*

I have quoted at this length from the Roman historian because the situation he describes is typical of the morass into which all states periodically fall for the dual reason that usury can neither be successfully prohibited nor legislatively managed, nor can people be curbed of their propensity for going into debt. Therefore, there must proceed out of this condition three results: a period where debts are accumulated to the point where it is certain that they can never be extinguished; a consequent clash between debtor class and creditor class, taking the form of revolution, threat of revolution, or at the least a mild change of government; following this, the mulcting of the

creditor class, the rehabilitation of the debtors, a declaration that the world has become the abode of Abundance—and then the whole process over again!

The Mosaic command of the forgiveness of unpaid debts at the end of seven years was no maudlin sentiment, nor was it a counsel of perfection. The Mosaic laws in general, though we cannot now discern the material bases of some of them, are certainly the expression of centuries of matured wisdom gained from harsh experience. There was a perfectly good hygienic reason for not eating pork; the distinctions as to cleanliness are the very opposite of whim; the permission of the poor to glean the fields and vineyards had both a social and an economic root: when the poor are permitted to glean, they are less likely to rob; and besides, the Jews had long since discovered the "law" of diminishing returns.

Now, when the lawgiver commanded his people to remit their debts at the period of the Lord's Release, it was humanitarian and ethical, if you please, but it was also eminently practical. The Jews of that period were a sinewy, emotional and military race. They could not only fight well against others, but they could start civil commotions of the most vigorous kind. They were not different from any other people in respect of their differences: that is, some were cunning and thrifty; some hopeful and prodigal. Thus they had the same clashes between the creditors and the debtors, the dispossessors and the dispossessed. The tendency of all interest-bearing debt is to lodge wealth in the hands of the most financially able, and to leave the rest of the people in poverty that borders upon slavery. This tendency is controlled, or aborted, in modern times by legislation directed against the creditor class

(though it seldom pretends this, preferring to mask itself as some newfangled social improvement scheme) [2] or by a manipulation of the currency standard. It is doubtful if the Jews, or any people of the period of the Mosaic injunctions, were so refined in their methods. When the debtors of that day saw themselves about to be sold into bondage for their financial errors, they started a fight. And, depend on it, there were always political factions ready to use malcontents toward a change of government.

I do not know all of what was in Aristotle's mind when he wrote that all money is sterile by nature and should not earn interest upon itself. I do know, from the words that appear at the very beginning of the chapter on money in which his pronouncement occurs, that this matter, and kindred matters, had been discussed by the Greek philosophers at great length. "That which was at first doubted," he says, "is now clear." Of all the ancient philosophers, Aristotle was the least likely to be beguiled by his own idealism. He could not follow Plato's reasoning about the Ideal State: The Stagirite was too competent an observer of life of all kinds to imagine that human beings as he met them were fit material for such an Utopia. His mind, as W. D. Ross says, "was as much set as Bacon's was, on putting observation before theory, and on making the theory fit the facts rather than the facts the theory." It is true that, lacking our modern instruments of measure, his physics, his chemistry and his astronomy sometimes went

[2] Laws looking toward the more humane treatment of honest insolvents, such as acts of bankruptcy and the statutes of limitations, are seen to be speedily abused, so that the cheating of the creditor comes almost to be by connivance between debtor and law court. The severity of the early Roman lawgivers was undoubtedly grounded in just such experience.

astray. But in the field of human conduct and political science he will bear modern challenge upon any point.

Aristotle's was a marvelously precise and tidy mind. He overenjoyed classification, perhaps. But certainly his was not the mind to indulge in flights of fancy or in rhetorical wishfulness. Before he concluded that money was naturally sterile, he must have sorted a magazine of practical observations in respect of debt and interest-taking. He would not have had to look far to see the immediate distresses of imprudent debtors. The mortgage-stones taken from the small farms of Greece by Solon had had plenty of time to return. But I doubt that Aristotle's view was greatly affected by these cases of individual plight. He knew too well that laws cannot exert themselves to protect each and every fool against the results of his folly.

Some of the best of the philosopher's thought was given to the study of the ideal state, or (as he would have been first to admit) the almost-ideal state. "A city ought to be composed, as far as possible, of equals and similars; and these are generally the middle classes. Wherefore the city which is composed of middle-class citizens is necessarily best constituted in respect of the elements of which we say the fabric of the state consists. . . . Wisely, then, did Phocylides pray, 'Many things are best in the mean; I desire to be of a middle condition in my city.'"

Now, nothing in Greece was clearer than that the effect of usury, when granted free play, without violent and unjust correctives through legislation, was to dilute and diminish the middle class and greatly swell the number of the propertyless, while strengthening the power of those whom Aristotle called

the "despotic rich." [3] This was a result which the philosopher had to consider and deal with in his political science. The way to prevent this natural flow of wealth from the many hands was, in Aristotle's view, not to curb the proficiencies of the abler men and discourage cleverness and initiative, not to wait until the damage was done and then to try to repair by rash and vicious measures, but to check the flow at its source. He thus declared against the interest-bearing loan as being the source of the mischief.

Having examined briefly the arguments of the moralists and the economists for and against the taking of interest, we now turn to the really important question: "What are the economic and social consequences of usury?"

It will be of little use to consult the economists for the answer. So far as my reading has gone, they have been content, first to deride the ethical position, and then to construct an apology for usury upon purely pragmatic grounds. They say it is workable, whereas prohibition of usury is unworkable. And this is undeniably true. Moreover, those who say that on social grounds the free market for interest, no matter how burdensome, is better than a skulking and costly market in defiance of the law, are entirely right.

But most bank-economists are not content to stay at this point. The earlier ones rhapsodized about usury as though Prometheus had stolen it from Olympus for the enjoyment of man. They would have you believe that all the economic progress, all the betterment of the conditions of life, all the

[3] It [usury] bringeth the treasure of a realm or state into a few hands. For the usurer being at certainties, and others at uncertainties, at the end of the game most of the money will be in the box; and ever a state flourisheth when wealth is more equally spread.—Bacon. But it must be spread by natural means. The state does not flourish when wealth is forcibly spread by enactment.

luxuries and most of the comforts now enjoyed by the humble, are the result of the freedom from restraint upon usurious practise.

Bastiat, a French economic writer of the early part of the nineteenth century, says: "Had mankind given obedience to the prohibition [of usury], the race would long since have disappeared from the face of the earth. For, without interest, the accumulation of capital is impossible; without capital there can be no cooperation of anterior and present labor; without this cooperation there can be no society; and without society, man cannot exist."

M. Bastiat here established a record for condensed inaccuracy never approached by any economic writer until 1922. Then the false prosperity resulting from the Great War inspired a tidal wave of "literature" from the professors, composed of the greatest variety of half-baked opinion, and having only one thing in common: that it was all wrong. But the pronouncement of M. Bastiat has something of the crystalline excellence of a five-and-ten-cent-store diamond. It is so consistent. It is not half right and half wrong; not partly informative and partly misleading, as such opinions usually are. It is all triumphantly and lyrically fraudulent. His score is perfect. Of five categorical statements, not one can be supported by the slightest evidence.[4]

The plain truth is that the economists have given the ultimate consequences of usury very little thought at all. They have been content to celebrate the emancipation of interest from ecclesiastical ban; they have observed also the rise in in-

[4] I quote from *Harmonies of Political Economy.* It is only fair to the pseudo-science to say that M. Bastiat was the Zane Grey or Edgar Wallace of the profession.

dustrial activity which had been nearly coincident with the multiplication of mechanisms for employing legal borrowings. *Post hoc, ergo propter hoc.* The whole theory of credit, which derives in its modern form from free markets of borrowing and lending, has been canvassed laboriously by a number of excellent writers, whose conclusions are well-framed, plausible, and as sound as any such opinion can be. Some writers have stepped aside, now and then, to notice the position of the small borrower, or to suggest the dangers that attend the swelling of the debts of government. The shelves of the public libraries sag with thousands of volumes, most of which have been useful at one time or other, dealing with the enormous variety of objective phases of private and public debt of the interest-bearing type. But, apparently, political economists have been content to catalogue the variety of interest obligations, to expound the principles back of their incurrence, and to explain their mechanism. If that is the ultimate bound which political economy has set for its exertions, there can be no just quarrel with the writers, upon this point. But, as I have tried to set forth in Chapter I, if the so-called science of political economy finds itself at this momentous period in the history of commerce charged with futility and impertinence, it may well be that the professors have gone either too far or not far enough. Either a political economy should be constructed upon the basis of profitless borrowing and lending (which will be regarded as absurd, if it be considered that the modern study arose only after the moralists had been defeated in their battle against usury), or it should try to discover and explain those social and economic consequences of debt and usury which are obscured by the more easily available facts. For it

is clear to any thoughtful mind that when an interest-bearing loan is paid, liquidated or repudiated, the major effects flowing from the agreement are far from fruition; the consequences may be only beginning.

Usury, in a world where men will not lend for love, is a *prerogative* of thrift. Nobody need find excuses or trump up economic grounds for it on any purely material basis, so long as the profit motive inheres in human commerce. Rent, profit and interest are distinguished by the economists for the sake of clarification and because they constitute three separate fields, each of magnitude. But they come finally to the same thing. They are the price paid by the less able for their less ability. No matter how labyrinthine the progress from production to consumption, the cunning and the strong will tax the guileless and the frail. Usury is only one means.

Not that the moralists, pagan and Christian, were wrong. Their weakness lay in the fact that the distinctions they sought to impress were neither wholly ethical nor wholly economic, but inhabited a kind of no-man's-land somewhere between the two. The early philosophers, perceiving how inevitable are the crashes of exchange and the falls of government springing from the inability of production to keep pace with debt, attempted to find in the moral sphere some indicated cure of a material phenomenon. Ethics deals with eternal verities, or at least the attempt to discover and describe such. Economics, in the modern sense, though not as Aristotle understood it, is distinctly a short-range affair. This can be clearly seen by its definitions, so many of which become wholly inadequate from one period to another, though they served well enough and were acceptable during their time.

This no-man's-land is the one which I am now attempting to invade. It is the one which the political economist has deliberately avoided, and I dare say with good reason. But the studied neglect of it is also an excellent reason why the quasi-science is charged with sterility.

One of the most serious charges (outside ethics) that can be brought against usury, it seems to me, is one that I do not recall ever seeing made, unless so obliquely that its suggestion escaped my notice. Especially in modern commerce, usury gives to debt a valuation and esteem which its merits do not justify. You may even say that usury constitutes the letters-patent of debt. In the eyes of both borrower and lender a loan is often deemed warranted merely because the borrower offers to pay, and the lender consents to receive, interest. It may be, from any prudent view, the wildest financial escapade, but because there is an interest rate or a coupon attached to it, its flaws escape the attention of those who would instantly detect them if it were merely a loan without interest, between friends. Especially is this true when there is a scrivener or broker acting as go-between. Among the "discommodities" of usury, Bacon noted that brokers "do value unsound men, to serve their own turn." Those who bought South American bonds in 1925-29 may reflect bitterly upon this discommodity.

In every important phase of modern debt pathology, hereafter discussed, it will be observed how great a part is played by this *false honor* supplied to debt by interest.

VI

CONTRACT AND THE SOCIAL PACT

> There are three periods at which the world is worthless: the time of a plague; of a general war; and of the dissolution of express contracts.
>
> *The Senchus Mor (an ancient Celtic law-book)*

SINCE all credit is in the nature of a loan, and since all debt must be in the form of a contract, express or implied, it follows that no one can intelligently comprehend the growth, the scope or the economic consequences of debt without some knowledge of the origin and development of the legal obligation.

So we shall consider now, necessarily in a brief and sketchy way, the rise of contract from the mere unenforceable pledge of faith, till it has achieved such importance in human affairs as practically to monopolize the theory and practise of civil law.

Although we may be sure that there never has existed any association of human beings in which there was not observed some form of contract, the evidences, before Roman times, of any refined body of law to enunciate the subtleties and provide for the satisfaction of the promises implicit in the growth of social spirit, are fragmentary and doubtful.[1]

So far as we may safely guess at anything in that period be-

[1] My lord the Viscount of Saint Albans once rose in Parliament and stated it as his matured conviction that there had existed greater civilizations before Homeric times than any recorded in subsequent history. I am not aware that the House went into a committee of the whole upon the point; indeed, I am moderately certain that many of the members were not even awakened.

fore the social contract was made, we may assume that borrowing and lending existed. It was probably in the form of services, repayment to be in kind, and constituted the first coy gesture of the rugged individualist toward that neighborly interdependence and mutuality which developed later, for better or worse, into the state. Certainly, the first request for help, on the part of one man to another, was the initial step toward contract; nor is it necessary to credit with instinctive sympathy the grantor of aid, for the rudiments of an imagination would suggest that the plight before him might some time be his own. Even in more enlightened times, it is still not uncommon for persons to weep copiously at a funeral, even though the deceased be one they could cheerfully spare. It is their own funeral, of course, at which they are grieved.

Ab and Boo, two sturdy individuals of the Stone Age, live at short distance from each other. Each occupies a comfortable cave. But one day when Ab returns from the hunt, he finds that a great stone has rolled down the mountainside and taken lodgment exactly at the door of his house, barring his entrance. The boulder is more than he can thrust aside by his unaided effort. As there are other caves, either untenanted or occupied by smaller men, Ab's first thought is that it is really no matter; it has simply become moving-time. But a little reflection takes place behind his receding forehead. In that cave are the stone implements, hewn out with so great labor, with which he plies his skills. Or, what might be more important: some treasured toy which he would not swap for the best bearskin in the world. Now, what to do?

Being almost certain that two men can move that which one

man cannot, Ab goes to Boo and asks assistance. The concept of community has not yet arisen in the world, and Boo's impulse is to shy a stone fragment at the borrower's head. But the impulse is arrested by a dim illumination that enters the half-baked brain. The shadow of thought suggests: "There are other boulders on the mountainside. What if a big one should roll down against *my* door? Then I should need help. If I, then, assist Ab—if I lend him my services on this occasion—I can reclaim equal services when I am in want. I had better be on the side of the angels, if any, and lend a shoulder."

"I will do this, if you will do that," says Boo. *Facio ut facias.*

This Boo does; and a natural obligation or naked pact arises, which, though ornamented and adjusted, does not change its principle throughout the ages until, in Roman times, a definite formula, a true contract with a cunningly devised stipulation before witnesses, becomes a promise enforceable under law, and repudiation is no longer a simple tort by which the defaulter loses only his repute.

Only, we must realize how slowly the sense of obligation, the fulfilment of a promise, must have fixed itself. There was no virtue in keeping one's word, for the simple reason that virtues were in the chrysalis stage. There was self-interest; but it was of the shortest possible range. What is now called "intelligent self-interest," which permits man to thrive by prolonging the existence of the marginal human beings, so that they may offer the largest usufruct to the most alert, was not dreamed of by Ab and Boo. Thus, when a great rock did finally roll down and rest against Boo's door, and he called upon Ab for performance on his contract, it is likely that Ab

demurred against being bothered. Let us imagine that Boo's boulder rolled down and blocked his door while Boo was within his cave, leaving just enough space for Boo's arm and voice to emerge, but no more. The imprisoned primitive now cries lustily for Ab. Ab approaches.

"When you had a similar difficulty," says Boo, "I lent you the use of my strength. Do you now lend me the use of your strength."

But Ab, who has been free from boulders for some time, finds it difficult to recall the stated occasion. There *may* have been such and such a case; he is not sure; what he is very sure of is that Boo is making a nuisance of himself, importuning busy men to help him. So he invents. He says he would gladly do this for Boo, but the fact is, he is just going off somewhere to stalk deer. And off he goes.

The next day, Boo cries again, and this time Ab takes his time about coming; but he comes, partly from curiosity, no doubt. Boo reminds Ab of his debt. Ab shakes his head doubtfully. He is too busy. "But you said you were too busy yesterday," urges Boo. "Yes, that is so; I am always busy." So Ab goes off again on his business; but as he goes this time, he says to himself that it would serve Boo perfectly right if he remained within the cave the rest of his life and for some time thereafter. He begins exceedingly to dislike Boo, without knowing exactly why. It may be that he just does not like Boo's face. He tells himself, maybe, that if Boo had merely asked him, casual-like, to push on the rock, he would have done it; but Boo tried to exert pressure, talking about an *obligation*. Obligation be hanged! Ab won't be told what he must

or must not do! In short, Ab is the primeval debtor, the original defaulter on a promise, already fabricating reasons to obscure the simple fact that it is inconvenient to perform.[2]

But these incidents get bruited, even in a low state of society, or in no society at all, and perhaps before he dies Ab swears by the Sun that if he had it all to do over again he would keep his word. For he sees pledges springing up about him; pledges oftener violated than kept, it is true; but kept enough often so that men have begun to get a reputation one way or the other. It finally dawns on stupid Ab that the man who holds steadfastly to his promise, even though at momentary inconvenience, gets more assistance when he needs it than the man who is found wanting when the creditor claims his due.

Now this is a low example—quite as low, no doubt, as the estate of man in the time of Ab and Boo—but it will serve as well as another to indicate how the "sacredness of contract" had its first feeble breaths. "Sacred" it was assuredly not, if the word be taken to imply the guidance of the religious spirit. It seems to have been a development quite as rational as the pounding of a mastodon steak to make it tender. But, long afterward, naturally it became a moral doctrine in a fellowship of similarly extracted dogmas. If falsehood had proved, over the years, to have been a profitable act in the long run, can we

[2] It was never in good taste to say that you do not find it convenient to keep a promise or pay a debt. The highest ground, to my knowledge, was taken by a New England farmer, who refused to pay a grocer's bill "because the Lord had appeared to him in the night and instructed him not to pay one d . . . n cent."

When the Federal Government of the United States, in 1933, chose to dishonor its plighted word in respect of gold obligations, the captive professors exerted all their ingenuity to find satisfactory reasons within the bounds of morality. They might have saved their oil. Since a government is above the law, it was necessary only to say the blunt truth: that the United States of America repudiated because it found it expedient to do so. There is one thing worse than lying, and that is to assert that you are not lying when you know you are lying.

doubt that perjury would at this moment be perfectly respectable? [3]

The borrowing and lending of services, as a simple verbal pact, still exists all over the world, but mainly in rural life. Of all kinds of debts, it seems to lead to fewest complications; and it may have the merit of maintaining the "neighborly spirit" which is so wanting in urban dwellers. The farmer, with more acres than he can reap alone, borrows the arms of his neighbors, his crop being a few days earlier than the rest, and repays them with his own labor when their harvests are ready. In such a narrow community, the penalty for default upon the obligation is immediate and lasting. No husbandman is twice taken in by a shiftless malingerer. He may nod cheerily to the repudiator if he meets him at the post-office, but when the latter next needs help to pitch his hay, he may as well apply to the crows and the squirrels.

So it is always, with our judgments, when we act for ourselves in a sphere clearly within our vision. It is the delegation of our powers that costs us most dearly. You and I know who are the men in our village that can be trusted; but introduce the broker, and we are soon dealing with phantoms that may come to life for us only once—the day they become insolvent.

The more romantically inclined historians are disposed to imagine that the ravages of time have lost to us the records of a mature judicial procedure on the part of that or this decayed state; as others are seized by the pleasant fiction of a lapsed

[3] Some cynics may retort that lying does not lack esteem, pointing out, as example, that perjury is the great indoor sport of the American law courts. But it seems to be permitted, if not justified there, for a like reason that a little mayhem is permitted in wrestling matches; *i.e.*, it makes litigation more entertaining and profitable.

Golden Age, when human happiness was the rule and not the exception. Perhaps both are right. But we also must remember that since law is the record, tardily made, of artifices contrived to settle conflicts of interest among congregated men, the legal equipment of a simple economy would be limited. The only form of dishonesty, for instance, treated in the most ancient Roman law, was theft.[4]

But we have, by good luck, at least a part of the Code of the sixth king of the first known Babylonian dynasty, Hammurabi. His reign was from 2130 to 2088 B.C. This Code, which presents many interesting similarities to the Mosaic laws, contains seven references to prosecution for debt. The general tone of these laws would indicate a much milder treatment of the debtor than those of the early Romans; and as the tendency in every great state seems to be that as wealth and luxury increase, the severity of the administration of the laws decreases, it is a fair assumption that Hammurabi stood nearer the end than the beginning of a highly integrated commonwealth. However that may be, the seven references to debt which follow are obviously the siftings from many generations of legislative attempts to deal with this most difficult of social problems:

1. If a man hold a debt of grain or money against a man, and if he take grain without the consent of the owner from the heap or granary, they shall call that man to account . . . and he shall return as much grain as he took, and he shall forfeit all he has lent.

[4] Sir Henry Maine rejects the inference that the primitive Romans practised a higher morality than the British of the last century. "We should rather say," he declares, "that in the interval between their days and ours, morality has advanced from a very rude to a highly refined conception." But why is it necessary to think that morality has anything to do with it? In so simple an order as that of the Rome of Numa, what other forms of dishonesty could exist?

2. If a man do not hold a debt of grain or money against a man and if he seize him for debt, for each seizure he shall forfeit one third mana of silver.

3. If a man hold a debt of grain or money against a man, and he seize him for debt, and the one seized die in the house of him who seized him, that case has no penalty.

4. If the one seized die of abuse or neglect, the owner of the one seized shall call the merchant to account: and if it be a man's son, *his* son shall be put to death; if a servant, one third mana of silver, and forfeiture of the amount lent.

5. If a man be in debt and sell his wife, son or daughter, or bind them over to service, for three years they shall work in the house of their purchaser or master: in the fourth year they shall be given their freedom.

6. If he bind over to service a male or female slave, and if the merchant transfer or sell such slave, there is no cause for complaint.

7. If a man be in debt and he sell his maid-servant who has borne him children, the man in debt shall repay the money which the merchant paid him, and he shall ransom his maid-servant.

The first of these paragraphs indicates clearly that the Babylonians, in Hammurabi's time, had a perfectly orderly and workable process for the collection of debt upon a contract, and tolerated no individual's taking of the law into his own hands. In the second, the citizen is given redress against a false claim or illegal imprisonment.

Paragraphs three and four resemble the provisions of the Roman Twelve Tables to the extent that the debtor could be taken captive by the creditor and imprisoned in the creditor's home. The Twelve Tables, however, prescribe the minimum sustenance of a pound of meal a day, which the debtor had a right to expect from his jailer, unless he found friends who would feed him. Also the Roman creditor was empowered to

tie the debtor by the neck, or put irons on his feet, "provided the chain does not weigh above fifteen pounds."

The fifth paragraph exactly describes the situation in which that Jewish widow found herself, who appealed to Elisha, saying, "Thy servant my husband is dead; and thou knowest that thy servant did fear the Lord: and the creditor is come to take unto him my two sons to be bondmen" (II Kings, iv). The widow's husband had died a debtor. Elisha, it will be remembered, provided in a miraculous way that the widow should come into the possession of enough oil to pay off the debt, ransom her sons, and live happily upon the surplus.[5]

I am in doubt as to the meaning of the last of these rules of the Hammurabi code. The obstacles to an adequate rendering of these ancient inscriptions must be very great. If it means that the sale of a maid-servant who had borne children to her owner was forbidden both to debtors and to those free of debt, it was a humane provision; but I suggest that the meaning may really be that such a maid-servant, surrendered as the one pledged as security for the loan, was not acceptable on the ground that, having borne children, she would not be of good market value.

When we come to the Greeks, who have left us a really remarkable bulk of literature upon every department of speculation and practise that would engage the attention of civilized man, we should be honest enough to admit at once, with Father Ronald Knox, that "something has come between us and the old classics which makes their world, try as we will, a dead

[5] I am not recommending that any of my readers should rely exclusively upon this method of emerging from debt. They may lack the singular devotion of the widow and her late husband, which made the multiplication possible.

world to us. . . . The Great Pan is dead, and the world of which he is the symbol; we can never recapture it."

The lawyer of today, reading the arguments of Demosthenes the Orator, although he may be fascinated by the manner, even as it appears in translation, will be puzzled and amused by the delineation of the legal methods depicted. It would not be surprising if, after reading Isocrates, or Demosthenes against Phænippus, with their allusions to the habit of *antidosis* (by which any Athenian citizen who thought that he was unjustly selected to outfit a warship when a richer man should have been the victim, could sue to compel the richer man to exchange properties with him for the space of a year), the modern attorney should suspect that the Greeks had no coherent legal system at all. For in this farcical convention, quite equaling in puerility the military strategy of Æneas, who seriously proposed the letting-loose of wasps and bees as a method of combating those who were mining under the walls of a besieged town, we perceive something of a lack of the ordinary adult horse-sense from which every sound jurisprudence must derive. Yet these were the same people who did more to promote human knowledge, human art and human culture than any other people that ever lived; perhaps more than all other peoples added together. It is all most mysterious. On one hand Aristotle, laying down certain principles of political economy which remain unchallengeable to the present day: on the other hand the assertion of great Attic orators that all sensible business men hide their money in the ground!

But what concerns us here is, to what extent the Greeks in general honored their promises, and how far they developed,

apart from ethical considerations, the practical machinery of making, sanctioning and enforcing stipulations between man and man, group and group, state and state. And here arises, of course, the unfairness of lumping together a great number of autonomous, jealously individualized city-states, inhabiting not only the mainland in Europe, but the islands of the Ionian and Ægean seas, the coasts of Asia Minor, Africa and Sicily, and considering them without relation to the differences of customs, speech, traditions and ways of livelihood. Still, these Hellenes, descendants of the Pelasgians, did have certain characteristics in common, and chiefly a religion—a polytheism in which the central figure, Zeus, easy-going and somewhat erratic in his benefits and displeasure, ruled, or attempted to rule, over a crowd of quarreling, self-willed lesser gods who were never happier than when thwarting the chief. Hera, Poseidon, Ares, Pallas, all challenge again and again the patience and authority of Zeus, and play their favorites like a lot of modern political ward-leaders.

Zeus alone seems to have been a personage of his word; and even he sometimes failed. When his wife Hera, not the most amiable or honest of ladies, tricked him into swearing that the descendant of Perseus, born on a certain day, should become the ruler of that race, and then hastened to Argos and arranged that the birth of Hercules should be delayed in favor of *her* choice, what did Zeus do about it? Nothing. He had sworn.

But this same Hercules, when he grew to manhood and was still the target of Hera's hate, had to perform twelve labors in the service of Eurystheus. It is interesting to note that each one of the wonderful feats performed by Hercules represents a contract, express or implied, and in three instances the cove-

nant was not fulfilled. King Augeas, owner of the famous neglected stables, promised the tenth part of his cattle if the cleaning could be performed in one day. He repudiated. When Hesione of Troas was a prisoner of the monster sent against her by Poseidon, her father Laomedon promised his horses for the rescue of the maiden. His pledge was worthless. Later, after Hercules returned to Thebes, he desired to marry Iole, daughter of King Eurytus. Eurytus contracted to deliver his daughter to the man who could conquer him and his sons in shooting with the bow. The victory was easy for Hercules, but the daughter was not delivered, the king alleging that the victor was a murderer. It was true that Hercules, in a fit of madness, had slain his own children, but that had nothing to do with this contract; although the disposition to avoid performance on similar grounds is not a peculiarity of antiquity.

Now the stories about Hercules were a cumulative series of myths that grew up over centuries of early Hellenic life, and all such myths undoubtedly reflect and magnify and build into heroic form, the natural experiences or day-dreams of human beings. The fabulous hero performs, on a vast and miraculous scale, exactly the deeds that men have done in a petty way, or would like to do. Thus, when Hercules was denied the fruits of his labors through repudiation of the contract, it was only what happened in everyday life, in many instances of pledged faith.

Hercules, however, was the son of Zeus, according to Homer. If the misadventures that followed the son of the chief god were sprung from the original jealousy of Hera, and Zeus was powerless to protect his own offspring because he had been

duped into an oath he could not break, how was it that Zeus did not punish the faithless ones who refused to meet their promises to Hercules? The answer is, that he did, but indirectly. He permitted Hercules himself to take vengeance. The hero, after his humiliating service in the court of Omphale, began to collect his debts. He sailed against Troy, took the city, and killed Laomedon. That done, he invaded Elis and killed King Augeas and his sons. Finally he evened up the score with Eurytus and his sons in Oechalia, and carried off Iole, the prize of the shooting-match. And, although it is not safe to make too liberal conclusions based on a primitive literature that we know little enough about, it seems reasonably certain that we have seen described in the Heraclean legend a period in man's history when the keeping of oaths was far more an ethical ideal than a practical procedure, and the breaking of a promise was a tort punishable only if the betrayed creditor had the strength to make accounting by force.

"Neither in the Iliad nor Odyssey," says Mahaffy, "is there, except in phrases, any reprobation of deceit as such. To deceive an enemy is meritorious, to deceive a stranger innocent, to deceive a friend perfectly unobjectionable, if any object is to be gained. . . . The really leading characters of the Odyssey and Iliad do not hesitate at all manner of lying."

There was, indeed, the oath of the Styx, the penalties for the violation of which are enumerated in Hesiod; and there were a few lesser personages who either did not take the trouble to lie and cheat, or were in such a position that they had no need to do so; but when the translator of Demosthenes, Mr. Kennedy, said that "the early Greeks attached the utmost sanctity to the obligation of the oath," he surely must have been thinking of a

people who preceded the Homeric period, a few of whose descendants still hoped, rather than believed, that the wickedness so apparent in their world might somehow be punished in the next.

With such a background of conduct, from which the reasoned importance of contractual fidelity is all but missing, it is no wonder that the later Hellenes were held in contempt, at least on social grounds, by the Persians first,[6] and later by the Romans. Cyrus spoke of "men who meet in the marketplace daily to lie and cheat one another." Darius, with bitter irony, spoke of Scythes as the most upright of all the Greeks he knew, because he kept a promise on *one* occasion. The slur "Græca fide mercari" was proverbial. In his oration, "Pro Cæcina," Cicero proclaims his admiration for the genius of the Greeks, their love of beauty, their graces, their magnificent language, their tireless intellectual curiosity, and the depth of their philosophy; but he was not able to say that they knew how to speak the truth.

The celebrated conference between the Athenian delegates and the spokesmen for the island of Melos, in the sixteenth year of the Peloponnesian War, is by most Greek scholars now considered to be a fabrication of Thucydides. Whether it is invention or not, what cannot be gainsaid is that Thucydides, an Athenian, would certainly know how a committee from Athens would be likely to think, talk and act under any given set of circumstances. And in the introduction to his history he had given fair warning that, where he was not in possession of the actual speeches, his habit was "to make the speakers say

[6] Herodotus I, 139: "The most disgraceful thing in the world, they [the Persians] think, is to tell a lie; the next worst, to owe a debt: because, among other reasons, the debtor is obliged to tell lies."

what was in my opinion demanded of them by the various occasions."

We therefore have a right to conclude that this alleged ultimatum of the Athenians to the Melians, one of the most brutal and cynical statements of national policy ever put on paper,[7] was at least predicable of the period, the men, and the instance. The Melians, a Lacedæmonian colony, were required to submit to the authority of Athens. They had been a free city for seven hundred years, and asked only to retain their neutrality and their independence. And, in the conference, after the Athenians had bluntly pointed out their ability to subdue Melos by superior force, the Melian commissioners rather innocently remarked that they must put their trust in the gods.

"When you speak of the favor of the gods," replied the Athenians, "we may as fairly hope for that, as yourselves; neither our pretensions nor our conduct being in any way contrary to what men believe of the gods, or practise among themselves. Of the gods we believe, and of men we know, that by a necessary law of their nature they rule wherever they can. . . . The Lacedæmonians, when their own interests are in question, are the worthiest men alive; of their conduct toward others much might be said, but no clearer idea of it could be given than by shortly saying that of all men we know they are the most conspicuous in considering what is agreeable honorable, and what is expedient, just."

In other words, in the opinion of the Athenians they were doing only what the Lacedæmonians or any other prudent and clever Hellenes would do if they had the chance.

There was, it is true, in this aggression no betrayal of con-

[7] The statements of policy of the Japanese in China are a close second.

fidence, no repudiation of express promise; but if the Athenians, "the school of Hellas," were able in the Periclean age to congratulate both the gods and themselves on their freedom from any foolish ideas conflicting with immediate self-interest, it is not hard to understand why, a few years later, when the son of Pasion, the banker, had his choice as heir of a manufacturing business worth 60 minæ income a year, or a bank worth 100 minæ, he chose the factory without hesitation. To be a banker among a people with whom convenience is a synonym for integrity is an uninviting prospect. And we know from Demosthenes that the successful Athenian banker met guile with guile, cunning with cunning.

Even a casual acquaintance with the Greek classical literature will suffice to impress upon anyone the high estimation in which the Hellenic world held mere cleverness, whether of dialectics, of warfare, or of business transactions. Adroitness and stratagem were expected to pay larger returns than straightforward honesty. In the magnificent funeral oration of Pericles, delivered in the winter of 431, the refinements and cosmopolitanism of Athens are justly considered, but there is only one mention of the protection afforded to thrift and to property by an adequate legal system, and that is an oblique one. "Fear . . . teaches us to obey the magistrates and the laws, particularly such as regard the protection of the injured, whether they are actually on the statute book or belong to that code which, though unwritten, yet cannot be broken without acknowledged disgrace."

What justice indeed could be expected of a jury system in which a horde of ignorant, sensation-craving, professional jurymen listened to a trial where the orators indulged in all

manner of abuse, dragged in arguments that had no possible bearing on the cause, introduced hearsay evidence, prosecuted actions barred by the statute of limitations, and provided a theatrical display that would be forbidden even in an American court before a politically appointed judge? Allowing for considerable exaggeration by the comic poet Aristophanes, it is still difficult to assume that stern, passionless justice could be possible with such an unkempt machine.

Meanwhile, in Italy, was rising a people far inferior to the Hellenes in culture, in the amenities, in skills of the arts and letters; a people so angular and hard and rude that most of them did not even comprehend what the Greeks meant by their sculpture, music, poetry and philosophy.[8] But these Western barbarians had made a discovery that permitted them in a few years to hold the rest of the world, including Greece, in the hollow of the hand. The descendants of the Alban shepherds saw very early something that the mature Hellenes never understood: that clever improvisation and empiricism cannot avail against scientific political method; and that no such method can exist unless rigid performance of an obligation is

[8] If you believe Dio Chrysostom, the consul Mummius, when he had carried off the Greek statues to Rome, did not know what they represented, and had "Zeus" inscribed on the statue of the Isthmian Poseidon, and "Nestor" and "Priam" on the statues of two Arcadian youths. There is also a story to the effect that when he gave out the contract for moving these works of art, he exacted a bond that if any were broken or lost, they should be *duplicated*. This sounds like sarcasm; but we also have the story of Polybius about L. Ancius, the prætor who conquered the Illyrians. To celebrate his victory in a large way, he engaged the most famous artists to come from Greece, including the three greatest flute players of the world. Having put them on the proscenium with the chorus, he bade them blow their best. They proceeded with their sweet melody and appropriate figures in their finest classic style. Ancius wanted more action, and louder. One of the Roman lictors suggested to the artists that they blow lustily and stage a make-believe fight, and to save their skins they did so, creating a discord, shaking the stage, stamping their feet, clenching their fists and grimacing horribly—which made the show a tremendous success. To make it even better, four boxers also ascended the stage and gave an exhibition to the accompaniment of the flutes!

its cornerstone. When Æmilius Paulus set his own golden statue on the white marble pillar of Delphi, Hellenic liberty, such as it may have been, was at an end. But in return was given security within the law, something the Greeks had known but little. If it be permissible to describe by the English word *character* that cluster of social virtues which the Romans called *gravitas,* then national character is what for the first time in written history began to dominate the world of men. And the basis of this character was the sanctity of contract.

VII

OUR LEGACY FROM ROME

> The essence of obligations does not consist in this, that it makes any specific goods our property, but that it binds some person to pay us something, or to do something, or to guarantee something.
>
> *Digest, XLIV, 7.2*

THE achievement of the Roman sway and its maintenance through so many centuries are not to be explained by military excellence, by superior courage of the individual, or even by extraordinary general intelligence. The Roman commanders at their best were not better than Hannibal; Sulla found that his men could throw down their arms and take to their heels; and compared to that of the brilliant Athenians, the talent of the Romans was of a plodding, earthy sort.[1] Sertorius, with a ragamuffin force of 2600 men "whom for honor's sake he called Romans," plus 700 Africans and 4700 Lusitanians, was able to defeat four generals sent against him in Spain with 128,000 men, and even humiliated the great Pompey himself. The very system by which commanders were chosen to lead the Roman armies in the field, made certain that the choice would fall as often on the incompetent as on the skilful.

Nor was the invincible strength of Rome due to the intrinsic quality of her laws for domestic government. Her legislators proceeded under no benefit of revelation, and the economic history of the nation abounds in efforts to perform miraculous

[1] Pericles boasted of the unorthodox quality of Athenian policy, and of their *daring* enterprises.

cures of that dislocation of production and purchasing power which is incident to a country's growth and to the abuse of credit facilities. Roman law was basically no juster or wiser than the laws of dozens of preceding powerful states.[2] It was more ample, better studied, and more scientifically ordered. Its adequacy and plasticity reflected the opinion of an eminently practical people, that if you are going to do a thing, it is of primary importance to know why you are doing it, how you mean to do it, and how you mean to adjust it to whatever else exists. In a word, method. Method is the thing which the Greeks talked so delightfully about, and never seem to have possessed. But they were artists; and besides, they loved best the kind of brawl in which the same persons were not always on the same sides.

The secret of Roman power lay in concert; in discovering the ultimate degree to which human beings can agree upon anything, subtracting from that amount the toll that must be paid to especial wilfulness and noncomformity, and stating the remainder in the form of an express agreement, or contract, which must be observed to the letter. This system embraced the citizen's relation to the state, the citizen's relation to his fellows, and the relation of both to the outside world.

The best brains of Greece were continually employed in the search for the ideal. Roman thought was directed toward ascertaining the possible. Except perhaps in the matter of oratorical mastery, little time was spent in the chase of the flying perfect. In the absorption of conquered provinces into the

2 What a misfortune that the laws Zaleucus gave to the Epizephyrian Locrians are lost to us! They must have been of great merit, to judge from the Locrian custom, whereby anyone who proposed an additional law should present himself with a halter about his neck, so that if the invitation failed of acceptance, he could be readily hanged.

empire, though shameful exploitation was practised, the tendency was to study what the traffic would bear; and even if the terms were sometimes hard, the protection of Roman citizenship was granted to those who understood what the responsibilities, as well as the benefits, were.

The responsibility which underlay all others was the rigorous adherence to promises. All the severity of a hard-bitted nation was focused upon this principle. In the performance of obligations the Romans, not only of the republic, but through the period of the emperors, went to extremes of conduct which must have seemed mad to their contemporaries. In the field of politics, the action of Regulus was always a model. He, who was made prisoner by the Carthaginians, was sent on parole back to Rome to treat for the exchange of captives. The agreement was that if the Senate did not assent to the Carthaginian proposals, Regulus was to return to Africa and give himself over to what was a certain death, perhaps with torture and indignities. Regulus, before the Senate, presented his message, and then advised the fathers not to accept the terms. He gained his point, and amid the lamentations of his family and friends, and the arguments of those who admire principle in the abstract but prefer their emotions in a crisis, returned to his doom.

After the battle of Cannæ, ten Romans were sent to the Roman Senate by Hannibal, after taking oath that they would return if they could not effect an exchange of prisoners. The proposal failed, and nine of the ten fulfilled their promise. The tenth man, speculating on how much more agreeable it would be to remain in Rome, evolved a brilliant idea. When he was leaving the Carthaginian camp, he went some distance

with his companions, and then remarked that he had forgotten some belonging, and was going back after it. Thus, he *did* return to the enemy, and thus he *did* perform his oath. So, when the mission failed, this tenth man remained in Rome. But this reasoning did not fool his fellow citizens. They said that "cunning is so far from excusing a perjury that it rather aggravates it, and makes it the more criminal"; they forthwith clapped irons on the defaulter and sent him back to Hannibal with their compliments.

Cicero tells an amusing story, illustrative of the fidelity of the early Romans to their promises. It seems that one Manlius was charged by Pomponius the tribune with tyrannical conduct, among other things the harsh treatment of his own son Titus, forcing the son to live a solitary life, a sort of imprisonment, in the country. Now, the much-abused son heard that his father was in some kind of trouble, and set out for Rome at once. He learned of the prosecution, and went directly to the tribune's house. Pomponius thought the son had come to bring some complaint against his father, so at once gave him audience. But as soon as they were in a room together, Titus drew his sword and swore that he would kill Pomponius instantly if he did not promise to withdraw his charges against the father. The tribune hastily promised.

This was clearly a promise under duress, which did not need, by strict legal construction, to be observed.[3] But Pomponius looked rather upon the promise than the duress, and reported to the people that he must let his action fall, for it

[3] Compare the modern attitude, as seen in the granting of safe-conducts to the assassins of Premier Dolfuss during the attempted *coup* in Vienna in the summer of 1934. On the strength of these guaranties, the slayers surrendered themselves—and were promptly hanged!

was better to suffer some injury than to bring any kind of contract into hazard. "Thus strict and conscientious were people, at those times, in observing their oaths," says Cicero, himself a barrister of no mean talent.

"At those times." Cicero seems to say that his own times were degenerate, and no doubt they were. No doubt, too, after the death of Augustus, in that long nightmare of bestial and crazed dictatorships, decent people must have looked back at the days of Cicero and Pompey and Julius Cæsar as the good old times. But the truth is that all we have of the period from the year 14 to the fortunate election of Nerva, is a series of one-sided pictures of monstrous political horrors. It is absurd to suppose that these emperors, many of whom could hardly be as dark as they were painted, would have had anything to maladminister, anything to squander upon orgies, had not the functions of daily commercial life continued pretty much as usual. The property of the very rich was confiscated at the pleasure of the dictator, but property rights in the large were not necessarily destroyed or even habitually infringed. It could not be so. The worst conceivable government must have money, and that money must accrue, sooner or later, from normally produced wealth: people will not produce and save where they cannot expect to enjoy. They will vegetate, rather.[4]

Five hundred years later than the time when young Titus exacted the promise from the tribune Pomponius, the Emperor Trajan was writing to his friend the younger Pliny, then proprætor in Pontica:

[4] In questions of private jurisprudence the absolute sovereign of a great empire can seldom be influenced by any personal considerations. Under the weakest and most vicious reign, the seat of justice was filled by the wisdom and integrity of Papinian and Ulpian, and the purest materials of the Code and Pandects are inscribed with the names of Caracalla and his ministers.—GIBBON.

"Though by my edicts I have ordained that no largesses shall be given out of the public money, yet, that numberless private persons may not be disturbed in the secure possession of their fortunes, *those donations which have long since been made* ought not to be called in question or revoked."

Trajan, as a good governor, must have writhed at the necessity for continuing the promised donations to a lot of worthless scamps, but he paid, because it was in the bond. Pliny puts a case to his emperor which was so flagrant that it must have given the prudent man a headache. A rascal named Flavius Archippus, who posed as a philosopher, claimed the privilege of being excused from jury duty. Those who knew him said that he ought not be sent to a jury, but back to the prison from which he had escaped after conviction as a forger. But this precious blackguard produced a laudatory letter from the late Domitian granting him some six hundred thousand sesterces, to be laid out in the purchase of an estate. The just Nerva, though he knew that Archippus was an impostor, and that Domitian was a vicious tyrant, nevertheless confirmed the grant, "since I have publicly decreed that all acts begun and accomplished in former reigns should remain valid." Trajan carried on the same policy. "It is possible," he writes, tactfully, "that Domitian might have been ignorant of the circumstances in which Archippus was, when he wrote the letter so much to that philosopher's credit. . . . But if any *new* charge should be brought against him, you should hear his accusers."

From the accession of Nerva to the death of Aurelius, a period of something less than a century, the empire had a succession of governments, or better, a single government in

which the guiding principles were forwarded by a succession of business managers whose like has never since been seen. It has been amply demonstrated that men can be prosperous under any form of government; and conversely, it is clear that the indiscreet behavior of men can prohibit their prosperity under any form of government. For government is, at its best, good management, and the virtue and intelligence of this management will be determined by the virtue and intelligence of the people who choose or tolerate it. No nation ever has worse rulers than it deserves, though of course it may have better: because there will appear, at long intervals, those philosopher-kings who were the ideal of Socrates. In Nerva, Trajan, Hadrian and the Antonines, the Roman people no doubt had better rulers than they merited.

The empire was, of course, already doomed, though it enjoyed a splendid autumn. The emperors were not altogether to blame. It was in days of the republic that those lively demagogues and cornfield politicians, the Gracchi, started the fatal scheme of supporting part of the population in idleness out of the public funds. From that time till the complete bankruptcy under Gallienus, it was only occasionally possible, under a sour dictator like Tiberius, whose bad reputation with the historians perhaps derives partly from the fact that he did not like horse-racing and knockabout comedy, to put the loafers to work and keep them there. The doles increased from the 420 denarii per person of Augustus to 650 under Trajan, 1000 under Hadrian, 1100 under Septimius Severus, 1250 and (two gold pieces!) under Gallienus—and then the cornucopia was empty. *Liberalitas* had proved itself, in the words of the an-

cient comic poet, "not a beneficence, but *merely a disease of giving things away.*"[6]

Through all these vicissitudes, under greater punishment than any other known nation and empire has ever been able to take from within and without, no imaginable human quality could have sustained the Romans and kept them astonishingly solvent, had they not possessed some deeply imbedded artifice of conduct which, under the worst breakdowns of morale and government, remained always active. They did possess this thing. It was the firmness of their belief that contracts are not lightly to be repudiated; that the permanence of society requires that promises be performed, however disgusting or irksome the performance may be. The behavior of a Regulus means very little if we regard it as an isolated nobility of character. There are grand persons in all times. It becomes impressive, even beautiful, if you see it as the flowering of a national persuasion.

That which undoubtedly gave to Roman contract the vitality and durability competent not only to preserve its original possessors from political and economic storms that would otherwise have engulfed them centuries before the empire fell, but also to project the benefits into a new civilization of which the Romans never dreamed, was the development of the Obligation as distinct from the mere promise, and the clothing of that Obligation with the dignity and solemnity of a social act. Individuals had made promises before; sometimes kept them faithfully, sometimes defaulted. Without question, the legal minds of antiquity had long labored over the problem of taking promises out of the field of simple agreements between

[6] Epicharmus.

men, and giving them this color of communal significance. But, to do the job thoroughly, the Romans perceived, it would be necessary to advance solid reasons why promisor and promisee should prefer the open, witnessed and sanctioned form. The best of reasons was found in the refusal to enforce mere conventions and pacts. It was settled that a promise was not a contract unless the Obligation were annexed to it.[6]

Now, what was the Obligation? To define it, the Roman lawyers painted a noble verbal picture. It was a "legal chain" which joined together two or more persons or groups who wished to agree upon certain acts. This chain could be broken only by the process called *solutio,* which signaled the just performance of the promises in the contract. If the contract called for the payment of money, the *vinculum juris* was broken when the money was paid according to the bond. In this legal chain, two elements were emphasized: the duty to pay, and the right to be paid. In this second element, with its implications, lay the real importance of the innovation. For the duty to pay had always, in a civilized society, been recognized. That the right to be paid had not been equally admitted, the orations of Demosthenes and Isocrates are good enough testimony.

To this present day there are those persons, law-abiding and upright in every other respect, who cannot be persuaded of this right to be paid, in a contract. They freely, even vociferously, admit the moral, social and legal duty to pay, as a principle. They may indeed believe that admission of the duty

[6] In later Roman law the prætors permitted equity actions on pacts when there had been a consideration; but this was a distinctly humane concession, and the vigor of the stipulation was such that it continued long after the consensual contract had monopolized the economic scene.

sufficiently indicates the right. It does not. One of the triumphs of Roman jurisprudence was in this clarity of vision, which saw that unless equal emphasis were put on the right of the creditor, the duty of the debtor would always be cluttered and obscured by considerations which arose subsequent to the agreement and had nothing to do with it. It is the failure to discern this truth that permits strange liberties to be taken with express contracts by modern jurists of good intentions.

The first step toward a settled society must have been the establishment of secure possession. That being admitted, it was necessary, in order to permit the fullest fruits of possession, to arrange for the transfer of property by consent. No doubt, in the earliest days, the rights of the individual were swallowed up in the rights of the family or group to which he belonged; but the idea remains the same. Both stability of possession and transfer by consent imply the performance of promises, but only in the general sense that government itself emerges from a covenant. The next advance beyond simple conveyance, however, indicates a long march in commercial relations. It was the promise to deliver something of value, which was not present at the time the bargain was made; a conveyance at a distance, either of time or space. Now the promise becomes specific and harder to enforce; because, while it is comparatively easy for men to see that their own security lies in the general security, it is a greater strain on the imagination to see that they should bother to enforce an agreement between two individuals in whom they have no interest.

The earliest sales among the Romans, as among all primitive people, were conducted without the use of money, but

with cattle or sheep as the measure of value. This was awkward, and most discouraging to small purchasers, who might not want a cow's-worth or even a sheep's-worth of anything. It was especially embarrassing for a dignified merchant, on his way to market, to have to drive his standard of value out of somebody's field, or separate it when it had locked horns with somebody else's standard. The need for a medium of measure, more convenient than something on the hoof, brought copper to the front; first, of course, as bullion. Then came money. Aristotle relates that the reason this measure of value was called in Greek *nomisma* was that it obtained its authority not naturally but by law (*nomos*); and *"it rests with us to change its value or make it wholly useless."* Many times since Aristotle lived, governments have exercised this latter choice.

In Rome, after the introduction of a metal measure, the seller brought his property to the market-place, and the purchaser came with the rough ingots of copper. The *libripens,* an indispensable person in the ceremony, attended with his scales. With grave and important formalities the commodity and the copper were handed over, in the agreed proportions, and the transaction was complete. While the business was in process there existed a state which the Romans called a *nexum.* The *nexum* was a bond which bound the parties to do a certain thing. The thing having been done, they ceased to be *nexi.* This is important in the history of the development of contract, because the same figure of speech—that of a chain being forged—occurs when the conveyance is incomplete or projected. I suggest that the harshness with which the Romans treated the insolvent or stubborn debtor was due in part to this legal thought: that the debtor who defaulted was in the

same position as a seller who went through the form of mancipation with the copper and scales, and then coolly walked away with both his commodity and the copper.

There were two other reasons why the Roman jurisconsults should have shown slight patience with the one who defaulted on his pledge. The form of the stipulation, the use of which was indispensable to an enforceable contract, was calculated to furnish to the buyer, or to the debtor, the amplest time for reflection upon the step he was taking. It was the buyer or debtor who put the question which initiated the agreement. "Do you faithfully promise?" ("Fide promittis?") "Will you deliver?" ("Dabis?") "Do you undertake to deliver to me this or that thing, on such and such a day, at a certain place?" This form of question and answer, which was known as the stipulation, remained in use, in spite of the constantly waning need for it, for more than four and a half centuries after Christ —until it was abolished by the Emperor Leo. Admitting the law's slavishness to old usages, this stipulation must have met an imperative need, especially for the protection of the simplest, least educated people. It kept them from rushing headlong into rash adventures of contract.

Also, it is safe to assume that a blunt determination was in the minds of the elder Romans, to discourage debt as much as possible. In buying and selling, the sharpness of one party and the simplicity of the other could result in merely a single incident of bad bargaining. But the man who committed himself to a future act, where the materials were not admonishingly in sight, was more likely to ruin himself and his family. By engraving the law on copper plates and posting it on the rostra in front of the Senate House in the Forum, the prospec-

tive borrower was informed of the danger of debt and the penalties for insolvency. Once that warning was given, the debtor need hope for no proceedings in equity to soften the consequences.

Since men in all ages undoubtedly went into debt just as soon as the circumstances of a surplus permitted anyone to have something to lend; and since the most primitive economic scenery was strewn with the wrecks of unwise borrowers; the earlier Romans, a most practical people, would have had every reason to discourage the large creation of credit as inimical to the common welfare. This would be most true in the most primitive communities, where all actions are observed by all eyes. Even to our day, when debt as an institution has been clothed with something of the mysterious and supernatural power that used to be the exclusive property of religion, there are still a few throw-backs who fear it so much that they cannot make use of it.

What mortgagors have always found it difficult to understand is that, when they give a mortgage, they are no longer the owners of the pledged property, except in a narrow and special sense. The title remains with them, but ownership in essence goes into a state of suspension awaiting the solution of the contract. Thus it happens that the debt relation creates in a modern populous state a vast pool of suspended ownership, terribly sensitive to every impulse exerted by the general economic conditions of any given moment. The result upon the pool of an abrupt alteration of these conditions need not be described, the evidences being so currently available.

It would have been incredible to Roman jurisprudence that the *consequences* of the enforcement of contract should be

made a subject of judicial inquiry. Assuming that the contract was the result of a meeting of adult and sane minds, and was not, at the time of making, prejudicial to public manners and welfare, the consequences followed logically from the act. It was assumed that the varying fortunes of men would result in disaster to certain hopeful promisees. The political theory that all adventures should be a success, and that government should guarantee every projector a profit, was never entertained on the Tiber. It was assumed, too, that changes in the affairs of the state itself would result in a debtor paying either more or less, in terms of purchasing power, than was planned when the contract was made. This was a risk assumed by both parties to the contract. The notion that strict observance of a contract would be prejudicial to the whole community, owing to a change in conditions exterior to the agreement, could hardly sway a people who had discovered—or rediscovered—the vital truth that the integrity of the community depended upon sacred observance of the promise. It is only in a society of such complexity that nobody can see anything very clearly, that men indulge in such fancies, and law encourages such fondness, as that men can still possess the cake they have eaten.

No; Roman lawyers would not have been even faintly amused by the plea that, though a contract was in accordance with the public welfare at the time it was made, a change in economic conditions had so contrived that the enforcement would entail a serious blow to common good at the moment of *solutio*. It would have been quite obvious to them, I think, that such reasoning would be fatal to all property rights, wherever and whenever. If security in possession of property, and the right to recover according to agreement, is to be reviewed

in the light of the comfort of an alleged majority at any given time of prosperity or adversity, then the only conclusion must be that primitive man struggled very hard to get nowhere in particular.

In all this, there is no suggestion that Roman law, and especially the Roman law of contract, was extraordinarily rigid and unfriendly to social and commercial advances.[7] It is the nature of common law to give reluctant and dilatory recognition to changes in deportment that have already shown the likelihood of becoming permanent; and it is a futile kind of law that precedes by proclamation such natural changes in the drift of human sentiment and affairs. From the rude copper and balance of early mancipation to the most refined agreements that, according to the Justinian Institutes, "require only the apprehension and consent of each party, expressed in any form of words," the Roman lawyers, generation after generation, had to accommodate the body of statutes, especially in respect of agreements, to an ever-changing economic scene. To give only one instance, the successful prosecution of the Mithridatic wars, with the resultant product in gold, slaves, and taxable dominions, introduced problems in contract, as to partnerships and corporations, which their ancestors could not have envisaged. But both the principles and the character molded upon those principles were unchanged and unchangeable.

[7] The Roman lawyers had a decent humility that led them, when they were puzzled, to take counsel with alien minds. Of this there is a curious instance in the Institutes. The question arose: whether commutation (barter) is a kind of buying and selling. The lawyers Sabinus and Cassius thought that it was, and quoted *Homer!* But Proculus and others maintained otherwise—and also quoted *Homer!*

VIII

THE NEW ORDEAL

The discretion of the judge is the first engine of tyranny; the laws of a free people should foresee and determine every question that may probably arise in the exercise of power and the transactions of industry.

GIBBON, *Decline and Fall of the Roman Empire, Chapter XLV*

THE gods, turned surly, seem bent upon the destruction of mankind. If the indications are trustworthy, the method employed is the ancient favorite: that of first making men mad.

Hercules, always hated by his father's wife, was driven witless by Hera, and in his frenzy killed his own children. Insane man naturally attacks that which is most precious to him, the fruits of his own toil and virility and aspiration. Hence we should not be surprised that the present and mounting folly of a crazed world should be directed chiefly against the very foundation of man's existence as a social creature, that chart from which he derives the greater part of his strength and all his power of organization. This foundation is Contract.

Wholly shorn of his belief in the validity of the promises of his fellows, civilized man necessarily would revert to what we may suppose was his original posture: solitary, lurking, apprehensive and predatory. The transition to this former state would not be abrupt, but, once definitely accepted, it would follow an ever-descending curve. Within recorded history this decline has several times been narrowly avoided, and then only

by the intelligence and heroism of the few, resisting the mania of the many. For the annihilation of former civilizations, whose existence is indicated by a few broken but significant remnants, it is adequate to offer the simple explanation that covenants became generally repudiated. That would be enough.

"If you do not know," said Demosthenes, when defending a wealthy banker in an Athenian lawsuit, "that Confidence is the principal asset of a business man, you do not know anything." Demosthenes was quite modern. He leaped a number of millenniums, with their painful struggle toward the development of Contract, when he submitted this statement to the jury. He might correctly have said, "If you do not know, men of Athens, that Confidence is the thing which makes it possible for this city, and the court of justice, and you unarmed men, to exist—you do not know anything." Manifestly, this is the truth of it. The day when the first troglodytes agreed upon the giving and receiving of a promise, was the day upon which Civilization was conceived; and the day when that promise was fulfilled, however grudgingly, was the day when Civilization was born. It remained for a superior race to clothe the naked pact with an obligation that could give the promise the sanction of law; but the essence of the social structure was in the discovery that two men acting together by agreement were better off than two men acting as individuals.

The greater part of mankind is incorrigibly hopeful of getting something for nothing, in spite of all the evidence that this way of life is illusory. So, most human beings can imagine no activity more delightful than gambling, and particularly

that form of gambling which consists in the attempt to outwit their fellows in exchange of goods and services. The lawyers of Justinian recognized this frailty when, in their wise and orderly codification of the rules of contract, they came to the final and personal touch. At this point they threw up their hands and said, "In pretio emptionis et venditionis naturaliter licet contrahentibus se circumvenire," and let it go at that. "In buying and selling, a little overreaching is expected in the matter of price." There is something in the horse trade that defies legal boundary.

In the face of this weakness, we may imagine that the earliest consent to live aggregated by contract was one given with reluctance, and with many misgivings that a good deal of fun was going to be missed. Only the whip of necessity brought men to that gloomy sobriety in which a promise was to be binding, and the dancing of today must be put aside in the hope of freer fiddling of tomorrow. It is no wonder, then, that at certain times, and indeed at pretty regular intervals corresponding with the greater cycles of abundance and adversity (the shirtsleeves to shirtsleeves periods of the race), the basic social contract, which is the sanctity of promises, comes into renewed hazard.

No person of composed mind and of any acquaintance with the past can fail to observe that civilization has arrived at one more of its recurrent tests, in which the tensile strength of the chain that keeps individuals from being redispersed into barbarism is exactly determined by the weight of repudiated promises it can bear. This chain is truly the *vinculum juris* of the Romans, on a much vaster scale than those words implied. Not only individuals, but partnerships and companies, lesser

and greater units of government, are busily engaged in tampering with this bond of contractual confidence with the purpose of effecting specific reliefs without entailing a general collapse. For in the latter case there would be no benefit.

When we remember that the vital principle of the contract inheres in the intelligently directed selfishness of man, which encouraged him to put aside the immediate interest for the distant but greater good, the naïveté of responsible persons who believe they can steal any lasting advantage becomes almost pathetic. They are in the case of those who spend their last moments on a sinking ship in looting the merchandise of the cargo, forgetting that when they have plundered they have no place to go and no chance of enjoying the fruits of their unsocial act. If you default, then I default, whereupon we all default; try to take a profit from that!

Of course, wherever there are contracts, there are violations; this must be so until perfection arrives. The repudiation of any specific covenant is of slight importance. The habitual felon is not necessarily a person of feeble intelligence. Neither is he who refuses to contract, or, having contracted, has done so with the deliberate intent to defraud. In both instances, a powerful egotism may inform the delinquent that he will be better off by subscribing to no social order; that by skirmishing on the fringe of the compliant majority, he can pick up a richer living than they. The law provides penalties for these nonjurors when they can be laid by the heels. It was only in the earliest experimental period that the principle of contract was menaced by such dissenters.

It is when repudiation ceases to be casual and becomes the subject of a new theory of conduct based upon it, on the plea

of moral or economic progress, that the principle is in danger. We then find enrolled along the attacking force not merely the unenlightened, the lone wolves, the discontented, the impoverished and the demagogues, but a new and far more dangerous class of innovators, recruited from that part of society which, having risen highest, has farthest to fall. The greatest assaults upon civilized society are always led by those who, possessing wealth without habituation, or knowledge without understanding, or sentiment without proportion, and above all vanity without curb, are always for marching upon some radical expedition under the colors of high moral purpose.

Truly, the precious husbandry of the world is always necessary to be fenced from that horde upon whom the processes of education can be lavished without the slightest visible effect. They are pressing ever at the gate, ready to swarm through and trample what they cannot devour. But, upon examination, it will be found that when the bars are let down, it is by certain beneficiaries of conservation, sometimes animated by misdirected benevolence; oftener by restlessness, a love of dramatic novelty or the malice that springs from incapacity.

In the region of politics, such a man was Jean-Jacques Rousseau, who chose soft boudoirs, but praised the rugged savage life; who had no effective morals, but luxuriated in moral theory; who was impotent in friendship toward men, but reeked with a doctrine of brotherhood. A sufficient number of Rousseaus, of Rousseau-cules, can be heard and seen in the political and economic scene of the moment. But whereas Jean-Jacques was an inspired lunatic and a consummate artist, these contemporaries are neither artists nor inspired. They are

simply busy and windy. Yet the times are propitious for Cleons. Our hardships are heavy; and even heavier is the disappointment of those hopes of perpetual prosperity raised in a period when promissory notes were mistaken for cash.

So, with such provocation and under such leadership, we see powerful forces being brought to bear to contrive a nullification of pledges of faith unfortunately, unwisely or flippantly made: sophisms multiply; and there is vague idealism, supposed to spring from generosity of spirit or political need, about "the greatest good of the greatest number," as though that excellent condition had been waiting thousands of years for the present generation to discover. And since the majority of modern contracts take the form of an indebtedness—in goods, services or money—it follows that the conflict will appear to have creditors ranged upon one side and debtors upon the other.

I say, it appears; for the truth is not there: in any engagement between those who do and those who do not actively support the strict observance of contracts, the battle is really between the forces of civilization and disintegration. But since it is not possible for many minds to encompass an abstract idea, much less to weep about one; and since it is possible for everyone to sympathize with a distressed debtor and to hate a prosperous and persistent creditor, the simple device of political dramaturgy is to place in scene two interesting antagonists: the man who received and cannot pay, or would rather not pay; and the man who gave, and is disposed to enforce the covenant. In such a presentation, rash sentiment does not fail to perceive who is the hero and who the villain, for two passions work simultaneously: first, the feeling of sympathy for the

under dog; second, the inextinguishable envy that delights in seeing wealth and pride toppled. This fallacy and these blind emotions are, however, not so mischievous in themselves; they are only what had originally to be overcome in the development of justice, and what justice must be prepared coolly but understandingly to ignore.

The real danger, and the emergency, derive from the fact that the resistance of law to the same fallacies is surely breaking down. Daily it becomes more apparent that the courts are no longer scrutinizing the contract with a view of deciding what was the intent—and when the statements are cloudy, or the agreement proper in spirit but irregular in detail, exercising the function of equity—but of applying a large program of interpretation which has to do with the consequences of performance. This, so far as the principle of contract is concerned, is fatal; for decisions rendered on that basis can reflect merely the limited reasoning of a judge, or a group of judges, as to the merits of a transitory condition or perhaps partisan polity. The man in the street can do that, perhaps with as much keenness as any other guesser.

We hear something, at least among readers of Plutarch, of the salutary *seisacthea* or burden-lifting decreed by Solon when he was called to rescue the tottering Athenian city-state. By his decrees, Solon "made a pound, which before passed for seventy-three drachmas, go for a hundred, which proved a considerable benefit to those that were to discharge debts," and brought about other social changes, presumably affecting existing contracts. It should be noted, however, that he did these things, if he did them at all (for Plutarch, though the most honorable of biographers, wrote seven centuries after Solon

was born), as dictator, in a state of alarm when constitutional guaranties were suspended. The principle of contract is not endangered by being wholly stayed while extra-legal powers supersede it. The Roman Senate, as a legislative body, did not cease to exist because some tyrant dispersed it, but only when, unhampered by major force, it failed to exert its normal functions or betrayed the idea by which it had being. And this is quite aside from the question whether the employment of dictatorial power ever cures those social disabilities and inequalities which are offered as its apology. In a verse quoted by Plutarch and credited to Solon himself, the law-giver states in his own honor that—

> The mortgage-stones that covered her [Athens]
> Removed,—the land that was a slave is free.

But the mortgage-stones reappeared many times in the course of the next centuries. Glotz says that agrarian pauperism was always the cancer of Greece, and that when she went down in a whirlwind, "her last defenders fell with promises of sharing land, and abolishing debts, on their lips." If the repudiation of contract, including the remission or lightening of debts contrary to the bond, were the open-sesame to perfect justice and prosperity, the gods would have come down from Olympus and joined the human race long ago. The experiment is not novel.

Neither is there anything new about the abrogations by which governments cheat their own subjects or swindle each other. Almost as soon as there was coinage, there was coin-clipping and coin-sweating; degradation of the standard of value; surcharging; and as soon as the use of paper symbols

came into wide employment, the emission of unredeemable inflation money. Dionysius of Syracuse ordered his creditors to present themselves with all their coin, and then doubled its purchasing power by means of an over-stamp, thus not only wiping out his government debt, but putting himself handsomely in pocket. At least the half of all economic history is concerned with the tragi-comedy of governments getting into debt by extravagance and trying to get out by fraud. A good deal of the other half is concerned with individuals attempting to do the same thing. But governments have the advantage over individuals in this respect, since they are immune from the police power, because they control it. Indeed, it is axiomatic that if the commercial morality of the individual were as low as that of his government, no government could exist.

What concerns us now, however, is not repudiation in specific instances, whether of government or the individual, but the attitude toward repudiation, as expressed by those whose position, training and intelligence is of considerable moment. While there is yet no blunt statement from high sources that an obligor is to receive special favor if his net fortune prove, on examination, to be inferior to that of his creditor; yet we have clearly arrived at the stage when, regardless of the intent of the obligation, if the debtor suffers a loss, the creditor is to be considered a partner in the borrower's enterprise; though, if the borrower prospers, the creditor simply gets his money back with interest. There is a romantic persuasion that bankruptcies should be avoided by such means, though common sense would say that an honest bankruptcy is preferable to a stolen solvency.

Of course, the leading spirits in the assault upon the contract

principle are governments. Whatever specious excuses are given by a government for the repudiation of its promises, either to its own subjects or to others, there is never but one real reason: that it wants more money to spend as it prefers to spend it. As all governments are liberal promisors, their first thoughts, when more money is needed and there is a fear of alienating support by taxation or expropriation, fly to the devising of some means of invalidating their obligations and setting up a construction more to their liking.[1] Fortunately for needy governments, a great part of their subjects are also in debt and would also like to be relieved. Therefore what the government desires, and what would at the same time be popular, happily coincide, and the next thing is to declare that a crisis exists. This is taking high ground, precluding the charge that there is any immoral or illegal purpose of fleecing the creditor class. Whether he likes it or not, the creditor is going to be protected against his own base instincts, among them the craving to have his contract fulfilled.

Having declared that a crisis exists, which is not hard to do, since governments are generally so clumsy and expensive that a crisis is always within call, all that remains is to alter the standard of value in some artificial manner; and there are a number of ways of doing this. This step, of course, brings all

[1] In this statement no account can be taken of a debasement of monetary standard which arises from the *curiosity* of a ruler, or his desire to furnish one of his favorites with a sphere for laboratory experimentation. I know of only two such cases in history: one being the Roman emperor Gallienus, son of Valerian. Gibbon paints an interesting portrait of this dilettante in supreme power. He had personal magnetism, was a fluent orator, a writer of elegant verses, a skilful gardener and excellent cook. At a time when the finances of the stato were at an alarming point, Gallienus held long conversations with the philosopher Plotinus concerning subsistence settlements to be modeled after Plato's communistic theories. He promised Plotinus a large tract of land to try the social experiment, but it came to nothing, because the emperor was soon enthralled with a new idea. This virtuosity and intellectual curiosity did not contribute much toward Roman prosperity.

existing contracts that involve money payments into confusion. The unfortunate consequences in respect of these contracts could be avoided by enacting, along with the legislation altering the standard, that preceding obligations should be made good according to the maxim, "Valor monetæ considerandus atque inspiciendus est, a tempore contractus, non autem a tempore solutionis," which is to say, not according to the new value, but according to that which existed when the contract was made. Curiously enough, this maxim was acted upon by several of the kings of France during the Middle Ages—a period greatly despised by moderns.

But, even if there were no political reasons against this course, it would be unthinkable to a modern government for the reason that it has its own obligations so clearly in mind. If its act were not to have the final result of assessing the difference to the creditor, the legislation might just as well not have been passed, and the crisis was cried up for nothing. Of course, the government is even now not in the happiest position, for its expenses increase in exactly the ratio of the degration of the standard; but this can be met by a further degradation, and that by another, and so on until that day arrives so well suggested by Montesquieu when he said:

"The state may be a creditor to infinity, but it can only be a debtor to a certain degree, and when it surpasses that, the title of creditor vanishes."

Meantime, the spirit of default naturally filters down through the body politic. And truly, it is hard for the humble individual to see why, if a government can elude its obligations, or set the stage for a general default based upon one particular

kind of contract, it is not equally in order for him to repudiate his promise, however and wherever made.

Yet, insofar as he is a reflective man who knows the story of the rise of civilized man from the cave, he will not readily lend his aid to destroy that which secures to him all the rights (and responsibilities) he possesses. The original principles of Right, as seen by Grotius, are confined to a small compass. They require only:

1. Abstaining from what belongs to another.
2. Making a compensation for the advantages derived from the use and possession of another's property.
3. Fulfilling the promises we have given.
4. Making reparation for the injury we have done.
5. Submitting to punishment for the offenses we have committed.

These are in fact the rules of civilization; but I submit that four of these are dependent upon the third one named; all the rest must derive their force from the belief that promises will be fulfilled.

And as no person can be an actively good citizen of a state, who is ignorant of the beginnings, and adversities, and struggles, and halting endeavors, by which the unity of that state was brought into being; so it is important to the intelligent performance of promises not to regard it as primarily a moral issue, though years of custom have endowed it with that secondary merit, but to realize the centuries of trial and check, the study of which led to the conclusion of Sir Henry J. S. Maine that "the positive duty resulting from one man's reliance on the word of another is among the slowest conquests of advancing civilization."

IX

THE INDIVIDUAL AS DEBTOR

O Judge, the father of mischief, have mercy upon us miserable debtors.
O Secretary, recorder of wrongs, have mercy upon us miserable debtors.
O Marshal, confiner of persons and divider of families, have mercy upon us miserable debtors.

A Debtor's Litany, from a Broadsheet of the year 1800

NOTHING has been more amply demonstrated during the past three thousand years than this: that the great majority of men do not esteem, or understand, or even desire personal liberty. What they value is the *semblance* of liberty accompanied by indulgences. Hence the astute tyrant of old times, and the cunning dictator of today, alike maintained and can maintain arbitrary power by offering the greatest amount of apparent freedom combined with liberal gratifications of a material kind. Self-government of the mass, like self-discipline in the individual, makes demands and calls for sacrifices too great to be happily borne by any race of men yet developed; though for brief periods certain peoples have approximated the fleeting ideal.

The first achievement of liberty of which we know anything, was the emergence of the individual from the family or clan, with a power to contract obligations. There is no historical record of this innovation, but it is implicit. But, tremendous as was this change in a political and social sense, yet

so far as the individual was concerned, the advance was more apparent than real. It was an exchange of domination. From the earliest days, the power to contract meant primarily the ability to incur debt: the obligor now issued from his subservience to the head of the family into a qualified enslavement to another individual. There may have been a gross gain, but the gain was not in principle. The powers of the earliest creditors over the property, the body and the children of the debtor are well known.[1] That the authority was contingent did not alter its reality. In appraising freedom, it is necessary to consider not merely what does happen, but what can happen.

But it is quite useless to warn the prospective debtor that he sacrifices freedom when he borrows, for several reasons. In the first place, we must reckon with the insuperably stupid, who understand neither the nature of liberty nor that of the obligation, but merely respond to the primitive impulse to try to acquire what they immediately want, on unconsidered terms. To these must be added the victims of cheerful vanity, who regard the future as an ark of beneficence, ready to pour advantages upon them as soon as the ungracious present is out of the way. These folk are not ignorant; but they cannot learn by example because they have never seen any examples that coincide with their own extraordinary merits and prowess. But some others are cunning. They know the dangers and the sacrifices attendant upon debt. They hope to elude them,

[1] In Pegu and the adjacent countries of East India, the creditor is entitled to dispose of the debtor himself, and likewise of his wife and children; insomuch that he may even violate with impunity the chastity of the debtor's wife; but then by so doing the debt is understood to be discharged.—*Modern Universal History*, vii, 128. This method of adjusting claims, though it seldom gets into the newspapers, is far from uncommon in modern civilized life.

capture the prize, and make their escape. They do not so much celebrate their own abilities as the vulnerability of the lenders. In the long run, they have observed, the capitalist is not happy, either. This might be his turn for sackcloth. In any case, however, the event is the same; a temporary submission of liberty for a *quid pro quo.*

The classical philosophers all inveighed against debt. "Why pay court to the banker or trader?" asked Plutarch. "Borrow from your own table. You have cups, silver dishes, pots and pans. Use them in your need. . . . For those who instead of selling them put their goods out at pawn cannot be saved even by Zeus the Protector of Property. They are ashamed to sell: they are not ashamed to pay interest on their goods when out at pawn." Plutarch called attention to the statue of Athena, on which was plated forty talents of fine gold, which could be used in times of war and restored in prosperity. "So we should do in our necessities, as in a siege, not receive a garrison imposed on us by a hostile money-lender, nor allow our goods to go into slavery; but stripping our table, our bed, our carriages, and our diet of superfluities, we should keep ourselves free, intending to restore all those things again, if we have good luck."[2] And Plutarch pointed out that people borrow before they have exhausted their own resources; "and what proves this very clearly is the fact that people do not lend money to the needy, but only to those who . . . bring a witness and adequate security for their credit."

Mohammed was told that an old acquaintance was dead, and it was suggested that he should attend the funeral. "Did my friend leave debts unpaid?" asked the master. It was admitted

[2] *Moralia,* "Against Borrowing Money."

that the deceased had left unpaid debts. "Then I shall not attend his funeral," was the reply. This was austere. Modern complacence, however, has quite evened the score. Not only is the modern mourner not deterred by the debts of the lamented: 90 per cent of funerals in the United States are financed with credit, and if the dead could speak, their first words would undoubtedly be: "Charge this, please!"

"The subject of economy mixes itself with morals," wrote Emerson, "inasmuch as it is a peremptory point of virtue that a man's independence must be secured. . . . A man in debt is so far a slave; and Wall Street thinks it easy for a millionaire to be a man of his word, a man of honor, but that, in failing circumstances, no man can be relied on to keep his integrity. And when one observes in the hotels and palaces of our Atlantic capitals, the habit of expense, the riot of the senses, the absence of bonds, clanship, fellow-feeling of any kind, he feels that, when a man or a woman is driven to the wall, the chances of integrity are frightfully diminished, as if virtue were coming to be a luxury which few could afford. Or, as Burke said, 'At a market almost too high for humanity.' He may fix his inventory of necessities and enjoyment on what scale he pleases, but if he wishes the power and privilege of thought, the chalking out of his own career, and having society on his own terms, he must bring his wants within his proper power to satisfy."

Thus the philosophers on the subject, ever since Cadmus discovered letters: a thousand pages of their discourses could be assembled to demonstrate that freedom is incompatible with debt: and the result of their teachings is what? Nothing at all. Philosophers speak to the philosophical, who do not need their injunctions, but only relish them as precipitants of their

own opinion. To the mass-mind, philosophy is a bore, introduced to distemper the gaiety and charm of the adventurous life. Socrates was hurried to death not because he challenged the piety of Athens, but because he nauseated Anytus and his fellow artisans, who viewed the world as a kind of profitable tannery, and wanted nobody "inquiring into the things beneath the earth, and the things of the firmament."

So we had better leave the morality of the matter to Plutarch and Emerson, and confine ourselves to the practical effects of debt upon the borrower, and the reflection of those effects in politics and economy. And here we must distinguish between two kinds of interest debt, much as the Church had finally to differentiate in its appraisal of usury—debt assumed for purely commercial reasons, and debt arising from real or fancied need, vanity and impatience. Debt that springs from genuine stark poverty, however, especially where the poverty is due to physical or mental misfortune, need hardly be considered. The modern state has a positive obligation not to permit worthy or incapacitated people to suffer; and if the application of this theory should result in some chicanery and malingering, it is better to endure this than to visit a frigid justice upon the heads of the guiltless.

In the field of non-trading debt, it may be stated at once that the person who is *habitually* in debt, whatever he may think of himself, is a miserable creature in the realm of economics. It is doubtful if his existence does the state any good whatever.[8] As he is never solvent, it follows that he must

[8] The kindly reader will immediately think of noble exceptions. But I am sure that, if he sufficiently reflects, he will end by rejecting some of his own exceptions. It cannot be denied that the world is always made more diverting by the presence of a few dazzling social nonconformists—loafers, swindlers, pirates and spectacular murderers. More than a *few* would be annoying and dangerous.

in the final balance have destroyed some of the surplus created by others. It is a common fallacy, especially in modern economic thought, that this perpetual insolvent is useful "because he is a consumer." But the man on the dole is also a consumer; yet only a few romantics, and those mostly in government employ, are rash enough to suggest that the dole system is beneficial to a state. Merely to consume goods confers no benefit upon mankind; this can be effected by burning them or throwing them in the sea. The only kind of consumption that has any healthful economic significance is that which promotes the combination of happy productivity and well-spent leisure; though this by no means excludes artistic services or rational amusements, which indirectly contribute to the total productive effort.

The classic model of the perpetual insolvent is Wilkins Micawber. The art of the novelist has endowed Wilkins with ineffable charm; we could not spare this glorious optimist from the world of imagination. It must be said, though, that actual contact with the Micawbers of daily life is not so pleasant. The corner grocer, struggling to support and educate his children, is intimately acquainted with a number of neighborhood Micawbers, and he does not find them overly amusing, since he cannot see why *he,* who works hard to keep *his* children in shoes, should inherit his debtor's responsibilities; and in contemporary life the grocer's wonder is heightened by the observation that his Micawbers can always find the means to operate an automobile, though they cannot settle for bread and meat.

The Debtor's Progress may be very briefly stated. All indi-

vidual debt, except that incurred for trade speculation or because of absolute poverty, derives from the opinion of the borrower that he is entitled to more goods than his cash position warrants. He believes that he is *good* (a significant word) for an enjoyment of things based upon his future productivity; in other words, he thinks his anticipated wealth has an immediate value. In this he agrees with the sober conclusion of the economist McLeod. If he can find a lender to speculate on such a possibility, debt ensues.

The first experience of the individual in extinguishing such an obligation will pretty much determine his future in the economic world. If the way is hard, and only by heroic efforts and deprivation is the loan canceled, the debtor may conclude that the best way to acquire things is to produce first and buy afterward. And it happens that in times of general adversity, the circle of credit begins to be stopped at its source because the mass of people discover that it is the hardest way to acquire. Conversely, in prosperous times the circle of debt is greatly widened, both because borrowing is made easier, and because the debtor finds it easier to cancel any given debt. This is the natural relation: but when lenders seek borrowers, and propose that only under cover of a furious barrage of debt can the industrial machine operate, the debtor is led to fancy that his virtue is being happily capitalized.[4]

It is no truer today, however, than it was in Plutarch's time, that creditors extend benefits where they can expect no return.

[4] A curious suicide was reported in the London *Morning Post*. A well-known English sheep-breeder, owner of securities worth $250,000 to $300,000, shot himself because "he suffered delusions that he was financially embarrassed," though in fact he had no debts at all. How strange—when one considers the widespread delusion of debtors in just the opposite direction!

Something of assessable value must be pledged, even if that something is only the honor of the debtor. The habitual debtor, therefore, sets up a chain of claims, one resting on another, until he has nothing left to pledge, not even his honor. For example, if a man own a house, and if he buy an automobile upon credit terms, obtaining the necessary cash payment on the automobile by giving a mortgage on his house, he is likely to believe that he is now the owner of both a house and an automobile. In fact he now owns neither house nor automobile. He possesses what is adroitly called an "equity" in both. Now, if he use these equities, so far as their purchasing value goes, to acquire something else on credit, he does not own more than he did before, but less. It is not long before he has no "equity" that will purchase anything, and when that time comes, the most he can hope is to be the janitor of his house, the renter of the automobile, and the recent-possessor of the other gimcracks.

But perhaps he still possesses, unencumbered, his household furniture. In that case he is still a man, not yet an economic zero. There are lending organizations that (sometimes with a great show of benevolence) will "consolidate" all his debts for this man.[5] The idea certainly appeals to one's vanity. Are not the debts of great corporations sometimes consolidated? Are not the debts even of mighty nations consolidated? It begins to look as though this small man was a subject of concern in the economic sphere. Alas! the consolidator has an eye upon the bed, the chiffonier, the couch and the dining-room chairs of the wretched creature. These chattels have

[5] The unfortunates who *borrow to pay debts* are described in the very ancient Greek proverb: "I cannot carry a goat; put an ox on my shoulder."

some salable value, and at 18 per cent interest, or upwards, have been shrewdly judged for what they will bring.

It will be observed, too, that the interest rates rise in exact proportion to the decline of the borrower. Five or six per cent was ample for the mortgage on the house; a note at the bank secured by machinery or tools, or stock in trade, would cost rather more; the automobile "paper" must bring 13 to 18 per cent; and when the last stand comes, the poor chattels of the household call for as great a rate as the usury laws, plus the skilfulness of the lender in evading them, will permit. The Hindoos had a law called "damdúpat," which prescribed that when the interest reached the same sum as the principal amount, no further interest could accrue. In better-organized countries there is nothing to prevent the Sisyphist from dedicating his life to the endeavor, always hopeful but never quite achieved, to buy back his chattels from the consolidator of his debts.

All debtors, of course, do not arrive at such straits; in the fluidity and resourcefulness of modern economic life it is seen to be possible for successive whole generations of a family to be constantly in debt, yet never sold into the street. It is absolutely true in the United States that children grow to manhood or womanhood, marry, beget and die, without ever having once attempted complete solvency, or indeed acquired more than a vague knowledge of what solvency means. So long as there is no general credit crisis, these chronic debtors maintain themselves, by tooth and claw, never to be entirely honest or truthful, yet seldom wholly dishonest or untrustworthy, on the fringe of positive usefulness. Both as producers and consumers, they are drawn up or down in the great credit current in which

they have their small part. A prolonged contraction of general credit—when actual owners of wealth try to withdraw from the credit pool—reveals the parasitic position these debtors have been occupying. The actual owners of wealth find that they have not as much as they thought they had. It has been consumed *by those who cashed their expected wealth.*

So the habitual non-trading debtor lives at the expense of the thrifty producer and saver; which is to say that the deficit he contrives must be paid out of the sum total of production. At first he is probably unaware of this. Later, he takes it for granted; and unless his situation improve, which can only be by a reversal of his attitude toward outgo and income, he falls into the category unpleasantly labeled "dead-beat." The "dead-beat" is a person who has discovered that the laws ameliorating the conditions of the debtor class can be used to swindle the creditor outright. Of course, this kind of debtor must be mobile; he can possess no tangible assets, and he must be potentially of the snatch-purse persuasion. But those who think that this type of parasite is confined to the "poorer classes" are entirely misled. It is true that little people emulate the devices of the greater, and those copy their superiors, and so ad infinitum. A scandalous revelation in the newspapers of trickery in high places—such as the Hatry swindle in Great Britain—invariably prompts a wave of petty defaults and cheating practises. But every merchant knows to his chagrin that in the circles of higher income there are people who contract debts with the deliberate intent of wearing out the creditor by every delay and contrivance offered by generous legislation intended to protect the honest insolvent.

In the past hundred years much charitable legislative thought

has been directed toward lessening the former brutalities employed against the bankrupt debtor. Nobody of sensibility cares to see the squalid ferocities and indecencies of the London Fleet or the vile sponging-houses come back into the world. We cannot fail to applaud the humanitarian impulses that led to the abolition of imprisonment for debt in France in 1867, in Belgium in 1871, in Sweden and Norway, Italy and Scotland a few years later. The provision for bankruptcy of honest traders, which came into English law as early as the eighth Henry, had been preceded by the Christian emperors of Rome, who enacted that if a debtor ceded his fortune to his creditors, his body was secure from ruin.

This remission of the former Roman severity was noted by Blackstone as "just and reasonable," but that learned man also remarked that the departing from one extreme is apt to produce its opposite; so "we find it afterwards enacted that if the debtor by any unforeseen accident was reduced to low circumstances, and would *swear* that he had not sufficient left to pay his debts, he should not be compelled to cede or give up even that which he had in his possession: a law which, under the false notion of humanity, seems to be fertile of perjury, injustice and absurdity." In the operation of the bankruptcy laws in the United States, in these days, the reader will perhaps see something sharply reminiscent of Blackstone's fear that one extreme would be succeeded by its opposite. It takes a rugged character indeed to resist the temptation offered by our bankruptcy acts to defraud the creditor and at the same time to remain in excellent social and commercial standing.

There is nothing new, however, about this opportunity to practise Jacob's thrift by making use of the blessings offered

by the law. The Quakers, who had a reputation for paying their debts, discussed the whole matter at a Yearly Meeting of the Society as early as the first decade of the nineteenth century. Has any other religious sect taken the brave position adopted by the Friends, in that meeting, concerning contributions to the church from the morally, though not legally, dishonest? We marvel, in the year 1936, at the simplicity of those humble worshipers:

"Where any have been injured in their property, the greatest frugality should be observed by themselves and their families; and although they may have a legal discharge from their creditors, both equity and our Christian profession demand that none, when they have it in their power, should rest satisfied until a just restitution be made to those who have suffered by them. And it is the judgment of this meeting, that monthly and other meetings ought not to receive collections or bequests for the use of the poor, or any other services of the Society, of persons who have fallen short of their just debts, though legally discharged by their creditors." [6]

A tract of the same religious body, of about the same period, eulogizes the conduct of one Jane Bawden (Honest Jane), a Quakeress of Cornwall, England, describing her heroic efforts, after being forced into bankruptcy through no real fault of her own, resulting in the payment of her creditors, penny for penny, in spite of the fact that she was legally released. After some deserved praise of the honesty of Jane, the writer of this tract proceeds:

> The fraud that is practised under cover of insolvency, is doubtless the most extensive of all species of private robbery. The prof-

[6] *Official Documents of the Society of Friends.*

ligacy of some of these cases is well known to be extreme. He who is a bankrupt today, riots in the luxuries of affluence tomorrow; bows to the creditors whose money he is spending; and exults in the success and impunity of his wickedness.

There is unquestionably something deeply set in human character, either by nature or tradition, that evokes applause of right conduct such as that of Honest Jane—and similar behavior can be matched by magnificent examples in all countries at all times. But the question to be considered is the very practical one: how many of those who commend such fortitude and probity could personally resist the temptation offered by the courts to have their cake and eat it?

The whole progress of legislative attitude toward the debtor, from the Roman republic to the present day, has been steadily, though with occasional backward lapses, toward making debt easier to incur, lightening the burden of carrying, and softening the consequences of default. It may seem to be purely an advance arising from the humanity of man; but there is another and possibly less noble explanation. The commercial debtor is, after all, an implement in the employ of surplus capital. Very slowly at first, but with ever-accelerating pace in the later industrial economy, the urgency of capital to be profitably employed, the use of bookkeeping credit, and the increase in the sum total of capital, have tended to give the creditor class an attitude toward debtors somewhat similar to that of the farmer who is fattening a steer for the market. The creature has horns, and can do sorry damage; his feed costs money, and nobody knows what the price either of feed or meat will be from day to day; but, after all, the farmer's income must derive from this speculation, and he must not only make the best of

his present worries with the animal, but also risk the escape or sudden death of his venture.

So the creditor doubts, fears, temporizes, but finally adventures; the debtor slyly notes his own importance in the scheme of compound interest, and is coy, elusive, correspondingly greedy, and quick to detect his advantage. This is a practical consideration. It is inherent in usury economy. If morals suffer, then they must suffer. The stout adherents of probity will continue to be honest; the more devious will look for an exit from unpleasant reality: but the great mass of people, adapting themselves to the flow of events, will without evil intent assume debt to the extent of their ability, and then go with the current. If lending has been overdone, and the time has come to mulct the creditor class, then it will appear a reasonable if not a virtuous act to profit by a general amnesty.

As to this great majority of debtors, who plan no fraud, but find it so embarrassing to pay through the exercise of severe self-discipline, we may find an interesting example in the experiences of the English courts. Imprisonment for debt is still in force in England. The "Act for Abolition of Imprisonment for Debt, for the Punishment of Fraudulent Debtors, and Other Purposes," was intended, it seems, merely to regulate imprisonment for debt. When a suitor obtains judgment, he may proceed against the property or person of the debtor. If he choose to proceed against the person, there is a hearing, and if the creditor prove, or the debtor admit, that the debtor has, or has had, since the judgment, the means of satisfying it, the punishment is six weeks in jail. This sentence is not a satisfaction of the debt; but on the other hand there can be but one imprisonment.

Now let us see what is the effect of this act upon small debtors, particularly; those, for example, who buy goods on the instalment plan, or from tally-men, and propose that they are unable to pay. First of all, it seems fair to assume that the norm of honesty, in business dealings, would be likely to be at least as high in England as anywhere else in the world, considering the English trading traditions and a still active respect for law. But in 1893 there were 75,834 warrants issued for imprisonment for debt, but only 6889 debtors actually imprisoned; and in 1904 there were 136,789 warrants issued and only 11,066 actually imprisoned. Which is to say that, in 1904, about 124,000 persons who had professed themselves utterly unable to pay, suddenly found the means to pay when they were confronted with a rest-cure at the hospitality of His Majesty. I have purposely given figures that relate to years before the Great War disturbed all economic and social relations.[7]

It is commonly thought that when debt is incurred by an individual or a corporation for trading purposes, there remains to the borrower a wider freedom of action than is the case with the non-trading debtor. To be sure, the merchant or broker borrower has a better chance to profit from his loan, and to emerge from the obligation; but in any other respect there is little difference. Likewise, those who believe that either the individual or the corporation evades any of the grief of "financial embarrassment" because of the large scale of their credit operations, are cherishing an illusion. The greater the debt, the greater the danger, in all cases except those where the creditors have been so reckless as to over-lend so grossly that the collapse of the debtor will entail their own. In that case

[7] M. J. Landa, *Economic Review*, 1907.

they take their place in the debt harness with their clients, to be driven tandem by some other creditor Jehu.

Go into the principal bank in any of the smaller cities of the country, and gaze upon the delinquent and fearful debtors, merchants, traders, enterprisers, seated upon the mourner's bench awaiting their turn to quail under the refrigerating eye of the banker. They have been "sent for." Their notes are due and payable; overdue and unpaid; they have not kept their promises; they were to reduce the obligation on Thursday the twenty-fifth, and it is now the thirtieth. If you have pity and discernment in your soul, look upon those faces, and upon those attitudes! Despair, puzzlement, cunning, transient hope, doubt, sullenness, wistfulness and dread. The dentist's outer room is cheerful compared with this. There may be one or two in the crowd whose eyes are bright with some heroic resolution. It may be that they have made up their minds to tell the banker to do his worst: they will take to the high road and become happy tramps; as a distressed cattleman in New Mexico, summoned to the bank by a threatening letter, strode in whistling and with every appearance of relief on his countenance.

"Has this bank ever been in the cattle business?" he asked the cashier.

"No," was the reply.

"Well, you are going to be, in a minute," shouted the client.

Only those who have laid their moral burdens upon the doorstep of the Church can have felt the equivalent joy of that cattle-raiser in making the decision which left him penniless—but free from a debt-ridden business.

These are the smaller trader-borrowers in this modern world

of credit. What of the great corporate bodies, which speak in millions? Does the vast size of their "credits" make them immune from the chagrins of the little debtor, and insure them that perfect liberty of thought and action so valued in theory? It is true that these colossi do not sit on the mourner's bench of a bank, in public view. When a railroad or a steel company or a steamship line passes under the yoke, the mancipation occurs in a sumptuous director's room, surrounded by such mahogany as will blend with the gloom of the proceedings. But—liberty? Ask the responsible heads of any great corporation, in a time of stress, whether they do as *they* see fit, or think best; or whether they consult the creditor to discover what may be *his* will. It was not so many years ago that the Ford Motor Company, one of the greatest producing organizations that have existed in the world, saved itself from the eager hands of a banking group only by a *coup* that was as brilliant as it was brutal. No; the profits of trader-borrowing may be attractive; the effect of the use of credits may be, and frequently is, highly beneficial to both borrower and lender; but if the great debtor boasts at once of both the magnitude of his credit and his freedom as a human being, it is certain that he is deceiving himself.

There is one other kind of debtor that should be glanced at in this respect. That is the institution which aims not at profit, but becomes a borrower in the prosecution of some ideal end. In 1909, the Holy See put forth an "instruction" concerning debt and its own affiliated religious bodies:

"Among the things which do most harm to religious communities, disturbing their tranquillity and imperiling their good name, the readiness with which they contract debts holds

a chief place. For it happens that debts are imprudently and excessively assumed . . . and while works may be praiseworthy in themselves, or at least by reason of the end in view, nevertheless, since they do not always harmonize with Christian prudence and good management . . . they cannot be acceptable to God nor of lasting benefit to those whose advantage is sought."

Other religious sects experience perhaps even severer effects of the debtor position, since the Roman church has long had a reputation not only for skilful financing, but for prompt and jealous regard for its credit. The Reverend Doctor A. E. Kholstedt, general secretary of the Board of Missions, told a Methodist assembly that in the United States 7865 churches have mortgages totaling $68,000,000 on church buildings or parsonages. "Of these churches," said he, "more than 5000 are in acute financial distress; some of them have been closed up already, and many others are facing foreclosure, utterly unable to meet their obligations." The speaker suggested a "Save the Sanctuary" movement to relieve the situation. In what sense the sanctuary is to be saved, I do not know. The physical sanctuary can be saved by raising the money and paying off the debts. The sanctuary of the moral sphere, it would seem to an unprejudiced observer, can be best preserved, free from the pressure of material things, by not being in debt at all. The first Christians worshiped wherever two or three were gathered together, and did not create edifices by applying to the changers of money.

It will be found, upon examining the histories of the many cooperative communities that have risen and decayed in the United States during the past century, that the only ones that

had any measurable degree of success were those that kept their outgo steadfastly within their income, and did not attempt to promote an ethical experiment with borrowed money. All these attempts to live a freer and finer life than the hopeful colonists felt could be lived under a profit system, could succeed only in so far as there was absolute freedom from the financial restraint of the world outside. It is manifestly preposterous for an anti-capitalist to pledge his experiment, from the outset, to the enemy, unless there is an unsavorv intent to cheat the enemy eventually out of his vile ducats.

The bitter experience of Brook Farm, that rather blue-stockinged attempt, near Boston, to bring to life some of the theories of Plato, will suffice for all. From the very beginning, Brook Farm's school, officered and guided by teachers of high merit, was well-received and was profitable. But "the necessity of meeting the *dues of interest* on capital advanced, about exhausted the proceeds of the school, which was much the most lucrative department of the institution."[8]

[8] *Life of George Ripley*, Frothingham.

X

THE INDIVIDUAL AS CREDITOR

> We hear sad complaints sometimes of merciless creditors; whilst the acts of merciless debtors are passed over in silence.
>
> WILLIAM FREND, 1817

MAN is happiest in the earning of his subsistence. It is when he achieves a surplus beyond his needs for seed corn that he encounters chagrins, alarms, midnight wakefulness. For, by custom, he is now partner or a mortgagee, and with both arrive cares and fears. And this is why many a rich man quite honestly looks back upon his journeyman days, when he went whistling home with a week's wages jingling in his pocket, as the pleasantest period of his life. His regret and wistfulness are the more pathetic since it was a happiness that he cannot recapture: one never goes back. What was once the tranquillity of limited and easily satisfied desires, would be, should he revert to such a state, merely a poverty tormented by the memory of possessions and power.

Power more than possessions, too. The mere *having* of things becomes, even to an inferior intelligence, a good deal of a bore; but the *power to have* things does not. Sweeter yet is the command over the bodies and the thoughts of other people: it is an authority which must compensate, in all but the most superior minds, for the lack of culture and self-fulfilment. I cannot find serenity within myself; therefore I shall be thrifty and apply my surplus to see if it can be manu-

factured by others for me. This is a fool's chase, but since it is the spring, we are told, by which the mechanism of all material progress is motivated, we must see in it such advantages as may exist, and make the best of them.

Debt is a phenomenon of surplus, and it was probably a development that, in the early days of the race, was slow to appear. Common prudence would tell any man capable of producing above his needs that he had better conceal both the fact and the goods; the woods were full of predatory eyes; after the coming of police, there were still wheedlers and visionaries to be thwarted. It is truly said that the ancients buried their money in the ground. Themistocles was a notable hoarder. But this was a disposition of the capitalist that lasted until well into the eighteenth century. The London merchants of Sir Dudley North's time were generally cold to the invitations of the brokers, and preferred to have their hard cash where they could lay hands on it at will. While the great fire of 1666 was raging, our honest Samuel Pepys recorded that he had begun to pack up his household effects, "and did by moonshine . . . carry much of my goods into the garden; and Mr. Hater and I did remove my money and iron chests into my cellar, as thinking that the safest place. And got my bags of gold into my office, ready to carry away." It required centuries of patient educational effort to convince the greater part of the capitalists that anyone was better qualified than themselves to dispose of their savings. But this is not to say that there were not always some who, for a number of reasons, entrusted their money to the usurers.

The progress of creditorship, beginning with the lending by one individual to another individual, has constantly tended,

through the centuries, toward increasing the importance of the scrivener, or middleman, and obscuring the relations between the lender and the borrower. When one individual lent directly to another, all was clear, even though the result might not be happy. The ability, the past history, the "credit," the purpose and the prospects of the borrower were paraded before the lender. The stipulation was recited before witnesses, and both creditor and debtor were imbecile if they did not understand what they were about.

But the introduction of the scrivener—flowering later into the banker and "investment broker"—responded aptly to the logical development of debt. There were two major reasons why the scrivener came upon the scene. Lending at interest was not at first a decent method of profit-taking, even when it was within the law. For that very reason those who took usury found it extremely profitable. So, very much as refined people turn the job of killing domestic food animals over to the butcher, the speculative capitalists preserved their reputations and their sensibilities by procuring the services of someone who did not value his reputation, or had none to lose, and did not mind sticking financial pigs. The other reason was, that it must early have become plain to capitalists that making profit through production or distribution, and making money through usury, are two very distinct operations, calling for separate talents seldom to be found in the same person.

On the side of the earliest broker, the position of middleman was attractive. He had neither the pains of accumulating surplus nor the labors of projecting that surplus into renewed production. All that was necessary was to bring borrower and lender together, and collect a commission, at first from one of

the parties, later from both parties, and finally, in the most gorgeous bloom of the function, as witnessed in the prosperity of the third decade of this century, pocketing an extra share by claiming a continuous profit from whatever use the borrower might make of the loan. But, the reader will say, this enviable situation could only come to such men as had peculiar talent. This is true; or, rather, it was originally true. The money-changers of London, who caught by the coat-tails the merchants of the marketplaces and urged them to lodge surplus with them for lending, were men who could point to solid successes as usurers. These men were the first "bankers," and they had to be shrewd, accurate, leather-skinned, inflexible. Failures could be few, for capital was timid enough, and cash would fly back to the strong boxes at a rumor.

But, whereas the scrivener removed the lender from the borrower only one degree, the coming of the modern bank, an institution tending to be anonymous, set up for the purpose of buying and selling debts by contracting other debts, further clouded any view that the ultimate creditor could have of the ultimate borrower of his money. Now, surplus capital flowed in at a window, and came out at another window, and the "depositor" or creditor of the bank could have only a remote knowledge of what happened between the two windows. All he knew was, that the money he lent the bank was in turn lent by the bank. Only by accident could he meet the man who borrowed that part of the total which *his* money represented; and now, if he considered the probity or the ability of the borrower, it was the bank-as-debtor he must think of, not the debtor to the bank.

Here was introduced a curious situation, where the capital

might be stolen, wasted or misapplied, yet the ultimate debtors might be both honest and solvent. The basic creditor, however, could not collect his due from the debtors, even though they were able and willing to pay, because, as the skein was wound by the hand of a third party, so by that third party it must be unwound. Viewed abstractly, this divorcement of the creditor from any sort of contact with the user of his surplus seems a trifle absurd; but the convenience and measurable safety of the modern bank has unquestionably justified its existence in a world so complex in its structure, so replete with eager capital, and so full of impersonal debtor bodies, that no lender could expect, without unusual difficulties, to act without an agent.

The bank, having accustomed the creditor to "lend in the dark," so to speak, naturally created the atmosphere for the final blindfolding of the lending capitalist. Owners of surplus "trusted" the bank officials first, then the bank because it *was* a bank, and finally gave their confidence because, most banks over a considerable period having proved fairly solvent and honorable as debtors, it began to be accepted that bankers must have very special ability to determine risks and select the best kind of borrowers, at the best time for lending. There was certainly some truth in this: but it must be considered that a banker would hardly advertise his weakness as a supervisor of debt, even if he admitted any, and in favorable periods of economy, most bankers will admit their merits if pressed hard enough. Some have been known flatly to proclaim themselves debt-experts.

However that may be, the field of debt was seized upon, as it was bound to be, by those who saw a way to profit by the

obscurity in which creditor and debtor now exchange. The "investment banker" hung out his shingle. Now, "investment banker" or "investment broker," or any similar designation, doesn't mean anything in particular, because the broker of Lord Bacon's time and the humblest country-town banker of today perform identically the same function. But those buyers and sellers of debt who "underwrite loans," and "float securities," and "effect mergers," and "develop holding companies," and "negotiate international credits," have obviously found the royal road to riches in their exploration of the area of debt. The commercial or the savings bank, under the eye of the central government or the state, affords the depositor, or creditor, at least the protection of periodic and usually faithful examination of its holdings and investments, and some insurance in the form of liability of the stockholders. The creditor is not perfectly secured by these safeguards, of course, and no perfect security is possible. But the self-appointed experts of the "investment" world are responsible to nobody. There is not the remotest effective supervision either of their intent or their talent or their acts. Simply by a kind of limp assent on the part of the rest of the world, they have attained a position where they dominate the entire credit structure.

That they do so control both the forces and the actual movement of debt is apparent from the fact that the bankers themselves are clients of the brokers, and rather helpless ones if we may judge by what happened to the bank portfolios after the crash of 1929. It is a stark commentary upon the subservience of the banker that when, after the "bank holiday" of March, 1933, billions of dollars' worth of "securities" were being tossed

aside as of questionable, or low, or *no* value, and the bankers were asked why they had thus invested the fiduciary moneys, the only reply they could make was that "those bonds were highly recommended." Highly recommended! And by whom? By the brokers whose commissions arose from the sale of the bonds.

The truth was that the bankers, in many cases, knew no whit more of the real truth of the debts purchased from the experts than did the individuals who bought them directly. Bolivian promises, stocks of gigantic but creaking financial institutions, real-estate bonds based upon mad valuations or dishonest ones, notes of foreign corporations whose very names were strange to the purchasers—all were swept into the bank vaults by the same broom and on the same "guaranty" [1]—a warrant which proved to be originated either in ignorance or guile, with a touch of arrogance for seasoning.

How was such a thing possible? Only because of an effectual smoke-screen which had been raised between the lender of capital and the borrower of capital, so that neither knew what the other was doing, or indeed who the other really was. And, to an observer utterly without prejudice, it must be obvious that this was the deliberate plan. The earliest brokers attained their profits by bringing prospective creditors and debtors together. In the vast range of modern debt, the legerdemain of the broker consists in keeping creditor and debtor apart, and of making the merit of the loan depend upon his own reputation for brilliant performance.

A single instance, taken from contemporary records, will

[1] Of course the word "guaranty" is here used only in the sense that a broker warrants his opinion to be better than that of his client. Otherwise, of what use is the broker?

illustrate this point. In the field of "securities"[2] representing American financing, no obligation during the past quarter-century was more esteemed than the "equipment-trust certificate" of a railroad. This certificate of debt afforded the creditor a claim upon the actual rolling-stock of the railroad, so mortgaged under the plan; and by theory, in default of payment of interest or principal, the mortgagee could lay hands upon the property where he found it. Such certificates were bought in great amounts by the public, either directly or through bank portfolios, without any real consideration of their intrinsic merits. They "were highly recommended." By whom? By the underwriters, certainly. So investors in Minnesota or California, on the opinion of brokers, became mortgagees of the rolling-stock of railroads they had never seen, and of whose management they were ignorant. As capitalists, not one of them but would have laughed to scorn a neighbor who lent money to an individual thus unknown and uninspected. Well, the other day the receivers of the Florida East Coast Railway coolly decided to let the holders of equipment-trust certificates acquire the rolling-stock according to the bond. This meant that the owner of a bond of $1000 could have the pleasure of detaching a wheel from a locomotive, and shipping it home to grace his dooryard, taking the place, as a lawn decoration, of an iron stag or dog. If this did not seem sensible, a group of mortgagees could band together and take away the whole locomotive. What they would do with the locomotive after they took it would be for the creditors to

[2] I must put the word in quotations, because in the jargon of the broker anything in the form of investment is called a "security." A dealer who should advertise *insecurities* for sale would get a huge reputation for frankness—but I suppose he would not do a thriving trade.

decide in conference. They would surely receive no suggestion from the Florida East Coast Railroad, and a letter to the "investment banker" who highly recommended this form of debt would probably remain unanswered.

I have purposely chosen, for this illustration, an example from the *most conservative* side of the investment field. Most railroads have not defaulted upon their equipment-trust certificates, and perhaps will not. A thousand instances of the creditor position, assumed on far flimsier dependence upon the grandiose pretensions of the broker, where the investor can never hope for the happiness of taking home an engine wheel for remembrance, could be enumerated. In every case it would be seen that the borrower was acting in a dense fog, with the broker for guide. He neither knew, nor was it intended he should know, the probability of the fate of his money.

The essence of the commercial loan is the belief of the borrower that he can make more profitable use of surplus wealth than the man who owns it. In so far, and only so far, as there are owners of wealth who will subscribe to this passionate belief, can there be any commercial debt at all. Debts incurred in the course of trade, or for the purpose of adventure, must be viewed in a different light from those arising from other reasons. Here, the wits of the borrower are presumed to be pitted against those of the lender in promoting a scheme that promises mutual advantage. The creditor seeks the greatest possible return on his money with the least possible risk. The borrower is looking for the lowest-cost accommodation, under such a contract as will preserve to him as much freedom and profit as possible. We need not weep about the fact that the

creditor, while he can hope only for the return of his capital with a stated usury upon it, often discovers to his grief, when the venture has faltered, that he is a partner rather than a mortgagee. Sometimes, when the failure is sufficiently established, the creditor will be permitted to become sole owner, the debtor generously relinquishing all claims upon the liability. And that is a pity; but it is the hazard of the institution of debt.

But, though we may indulge the hope that the majority of men are still of honest intent, the acceleration and extension of the functions of debt have undoubtedly brought into existence powers that prey upon surplus wealth, and so upon all productive effort. The interchange of labor for labor, which is at bottom the thing we call economy, is in its principles easy for men to understand; they act upon those principles almost instinctively. Though they cannot always explain, they know why they do certain things and refrain from others. But with the introduction of a complex mechanism of debt-trading, dark corners are created, which simple men do not try to explore, but which furnish fine camps for the economic banditti. Somebody has wittily said that the hardest way to get gold is to dig it out of the ground. An easier way for the alert man to get gold is in trade. A still easier way for the clever man with a supple conscience is to hang upon the outskirts of trade and work upon the confidence and the ignorance of traders. It is beyond dispute that, whatever may be said of universal morals, the morals of the upper business stratum have immeasurably retrograded in the past quarter century. The shocking part of it is that this stratum is recruited from the very people who have enjoyed the greatest benefits of education, even of

culture, and whose *parole* was a matter of confidence to those who had to trust somebody.

From the end of the war until the panic of 1929, every swindling device in the field of debt that could operate within the criminal law (and many for which the criminal law had punishments, unavailingly) was condoned and boasted by debt-traders of the most "respectable" kind. How was this possible? Granted that it was a period of greed in which everybody shared, why was so little intelligence displayed by the creditor class? For the creditor class is numerous: in the United States, with a population of 120,000,000, certainly not less than 60,000,000 belong to that class through having invested capital of some kind. On the law of averages, not more than 20 per cent of the sixty millions could be morons.

To realize the transcendent power of the broker as the unique and infallible distributor of debt obligations, and the consequent helplessness of the creditor class to act upon their own judgment, it is merely necessary to review the experience of the past decade. The insolent assumption of knowledge and ability—which we now see clearly they never possessed—permitted the broker peddlers of debt to load upon the creditors a mass of insecure, fraudulent, unmoral and even worthless promises. When the crash came, as it had to come, it piled up wreckage of bankrupts, impoverished widows and orphans, caused suicides. It stripped of their life-savings not only those who had ventured directly into the investment field, but those who had become depositors in institutions. It shattered confidence; it broke friendships; it dispersed families; it projected into the world a cynicism and disbelief in fidelity that will take generations to dispel.

In the face of the result, it might have been thought that the broker-world would have fled in shame to remote caves, covered its head with ashes, or decently committed hara-kiri. But this audacious band never dreamed of such an immolation. Secure behind their symbols, and confident that they held the only modern liaison that can exist between creditor and debtor, they merely shrugged their shoulders and cried: "Our mistake. Pardon it, please. Let us show you another plan. We are the men who will yet make your fortunes." The drums of the middlemen of debt, stilled for a short space, are beating just as loudly as ever.

How can it be? The answer is really very simple. Hardly any lending is today done by the individual in the light of day. Borrower and creditor never meet; all is by agency and delegation. The mysteries of Eleusis were not a more jealously guarded secret than the mysteries of the manipulation of modern credit. And the high priest is no longer the banker, nor is the economy a banker-economy. The magic is that of the broker, and our economy is broker-economy.

In certain periods of the world's economy, the creditor occupies an undeniably comfortable position. The individual as creditor may be fortunate or skilful, or both. If his political position is always precarious, his legal position is strong. In spite of all the modern legislation intended to relieve the debtor of the worst of his woes, there is still sufficient regard for the principle of contract, and still enough feeling of awe toward the possessor of lendable surplus, to encourage those so minded to become accumulators and mortgagees. At least this is true

in times of quiet production and storing of wealth. If it were not so, there would be no creditors.

But the creditor class is not permitted too much happiness. That would be against nature. The law of compensation requires, very likely, that for every sleepless night passed by a debtor there should be a nightmare suffered by a creditor. It may not be the same night. It may be long deferred. Speaking broadly, it seems unlikely that both creditors and debtors can be happy at the same time: though it is quite possible, in modern debt manipulation, and under the influence of such economic laughing-gas as was pumped upon the world from 1922 to 1929, that both may make outcries of anesthetic pleasure. Upon emerging from this artificial sleep, the two classes will find their interests dissimilar. Upon this discovery, the debtor applies to the politician; the creditor to the majesty of the law: and a race ensues to see whether the politician can change the laws or the laws resist the politician.

The vulnerability of the creditor is constant and inevitable, and his struggle to avoid spoliation may be briefly traced:

In the primary instance, when the individual is his own agent, and he lends with full knowledge of the borrower, the speculation is restricted to certain definite risks. Is the borrower honest? Is he able? Is the bond enforceable? If there are affirmative answers to these questions, and the lender has already decided against burying his money in the garden, he becomes a creditor. If the venture prove illusory, but the debtor honest, that is a little sting. If the venture be successful, but the bond defective, that is a larger thorn. If the debtor prove dishonest, this is most destructive of all, economically.

The creditor gets what he can, when he can, however he can. There are many methods that can be tried. The ancient Hindoos had a way called *Dharna* for collecting a just debt. This consisted in the creditor sitting down at the door of the debtor and refusing to eat or drink till the debt was paid. This tells us something about the ancient Hindoos—and incidentally something about our modern selves. For the creditor who adopted that method nowadays would be in danger of injuring his health. We can imagine no subject that has less interest for the modern debtor than the food-and-drink supply of his creditor.

In banker-economy, when the lending is by simple agency, and risks are spread, defaults become more numerous, but less burdensome upon the individual creditor. He now belongs to a sort of guild, with some political as well as legal power and influence. His eggs are presumably not all in the same basket. There are methods of enforcing payment, or of exacting penalties, that do not bring him into personal disrepute. This banker-economy plan seems to represent the happiest position for the creditor, though not necessarily for the debtor. The chief source of danger in the banker-economy is that lending will be overdone, and the spoliation of the creditor will then be by *crisis.*

Broker credit, as we have seen, is the most dangerous of all for the creditor. It must always lead, through its excesses, to spoliation by *decree;* that is, by legislation which directly mulcts the creditor for the benefit of the debtor, or for the state-as-debtor: either of part of his capital, or of the whole of his capital, depending upon how far the deflation of debt goes.

In any case it is axiomatic that no benefit can accrue to the

debtor from the spoliation of the creditor by legislation. What occurs is simply a legal recognition of the fact that the creditor's wealth has disappeared—into the limbo of lost enterprises, and into the pockets of the middlemen or brokers who arranged the debts. The legislation does not change the facts in the least: all it says to the creditor is that he must no longer dream of getting his wealth back; and all it says to the debtor is that he is no longer required to cudgel his brains over the problem of paying something with nothing. If a stream of repudiated obligations goes dashing down the flume—well, that is the price of unwise creditorship. The hell of dishonored contracts is paved with loans that never should have been made.

And thus we see that a new maxim should be graven on brass and set up in every marketplace. *Caveat fenerator!* Let the creditor beware! The *emptor* or buyer has become a rather shrewd person. If he does not always buy what is good for him, he at least sees that the goods are as represented, and the terms, if too severe, can be challenged either at the market or in a benevolent court of law. He knows, too, that "a poor man's debt makes a great noise," as Thomas Fuller said; whereas a rich man's credit is a target for the demagogue.

In the whole history of debt, which is as long as any history, it seems seldom to have occurred to anyone that the creditor is under both a moral obligation and an economic obligation not to lend unconscionably. It is fully understood that he may not exact more than the legal rate of interest; that he may not force a contract under duress; that he may not abuse the body of the insolvent debtor at will. In modern economy these factors have become of small importance. What matters now

is that the creditor shall not incur a credit position without care, diligence and a conviction of the wisdom and rightness of the loan. It is no longer sufficient to say that the unwise creditor is punished by losing his capital: the evil does not stop there. Nothing is more evident than that the whole civil body suffers from an immoral contract, or a broken one.

The principle of reckless lending was fairly stated nearly three centuries ago by Turgot in his *Formation et Distribution de Richesses.* "The lender cares about two things only; the interest he is to receive, and the safety of his capital. He does not trouble himself about the use the borrower will make of it, any more than the merchant concerns himself with the use his purchaser will make of the commodities he sells him." This pronouncement, which has the outward show of common sense, will no longer, if it ever did, bear inspection. It is the policy which is responsible for nearly every broken contract in three centuries; the policy which has brought the whole world, in the year 1936, to the door of receivership.

Neither in morals nor in economy has the creditor any right to take such a light view of his responsibilities. The merchant has long since, at least in legal theory, parted with any "right" to sell his wares to a customer who will use those goods against public policy. If a dealer should sell a pistol to a known criminal, or to a mad creature who was likely to harm himself or others through the use of it, that dealer might escape prosecution, but he could not hope to evade the execration of decent men. The story of credit in the past decade reveals quite as much immoral creditorship as debtorship; though of course we merely see the situation at its worst in that recent period, for

really the flagrant abuse of creditor ability on a large scale began with our industrial economy.

To become the creditor of an individual who is already sunk in debt, and who can pay one creditor only at the expense of another, is an immoral and uneconomic act, whether performed directly or by agency. It can only lead to public harm. To become the creditor of a government whose politicians intend to steal and waste the loan, or divert it toward a needless military expedition, or even to disturb the nice balance of production and buying-power by a rash enterprise, is an immoral and uneconomic act. To become the creditor of a group of financiers who will use the capital to exploit another creditor for their own enrichment, is an immoral and uneconomic act. The "right" to be that kind of lender is a right that no longer can be maintained in the world, if it were ever respectable or sound. Yet the billions of credit which were pyramided in the ugly decade were obviously composed mainly of this sort of loan. How could it be otherwise, if the ultimate creditor had no means of disposing of his surplus than through agencies whose profits were great in exact proportion to the ignorance and avarice of both creditor and debtor?

Disaster was invited, and disaster followed. The individual creditors lost their capital, but that is of small importance. The essence of contractual faith was so wounded that it has not yet shown signs of recovery, and that is most important. If, from the ashes of this structure of blind greed, a sober recognition of the responsibility of the creditor, as individual, should arise, it might be worth all it has cost. It is too early to say; but in honesty it must be admitted that there are few signs of such a change.

XI

SALESMANSHIP AND BUYERSHIP

> It is a saying among the Messenians that "there is a Pylos before Pylos, and another Pylos too." So it may be said with respect to these money-lenders, "There is interest before interest, and other interest too."
>
> PLUTARCH, *Moralia*

IN modern commercial practise, the dividing line between cash and credit is not always easily drawn. In theory, whenever a sale is made, or a use granted, or services rendered, if the payment be not in cash, then a credit must be extended. In practise, certain forms of credit are given which must be construed as cash payments, and to assume otherwise would be splitting mustard seed. For example, the user of electric current settles his bill not as the current is used, but at certain periods either expressly or tacitly agreed upon. This is for the convenience of the seller as well as the buyer, and the cost of carrying the account no doubt finds its way into the total charge.

The same is true of a householder who "has an account" with the grocer, and pays his bill once a month or once a week. If the bill, when rendered, is paid with reasonable promptness, it is assumed to be cash settlement. By the strictest construction, the laborers in a factory who receive their pay once a week may be said to have granted credit to their employer; but the workman does not look at it that way, nor does the employer. The "charge accounts," now greatly in use at department stores

and larger shops, seem to be in a sort of middle ground between cash and credit. How much prices to the buyer are increased by the use of this sort of contractual deferment is an entirely different matter.

It can be safely concluded that the common sense of men tells them with reasonable accuracy when they are buying or selling for cash, and when on credit. The user of electric current who lets his monthly bills accumulate for a considerable period is quite aware that he is asking and being granted credit. If an employer, in a crisis, calls his men together and gets them to agree to miss several pay-days, he knows and they know that the men are extending credit to him. And grocers and butchers understand only too keenly that when the bills sent to customers are ignored, or meet with romantic apologies and explanations, they are launched on the choppy seas of credit. I do not mention doctors, for they would be so nervously upset by receiving cash for their services as to become patients themselves.

So much for those contracts which lie along the border-line of cash or credit. We shall not be much concerned with them, further than to say that they are training-grounds for the expansive use of credit in its most modern acceptation. For instance, the householder who meets his small bills promptly will tend to be a cash buyer in larger transactions; while the laggard and the explanatory ones are likely to listen with delight to the offer of something sold with "no money down." There is a cash temperament and a credit temperament, undoubtedly; instalment merchants understand this very well, and the trend of modern selling is more and more toward inventing devices

for breaking down the "cash attitude," which is a sort of "sales resistance."

The stress upon salesmanship and selling—in the sense of forcing distribution to a quicker pace than would exist if buyers acted without prod and pressure—is the natural result of overstimulated production, which in turn, as we shall see, is the effect of credit-cramming and the coincident attempt to offset the weight of compound interest by large-volume operations. It is a common saying among merchants that "goods are no longer bought; they are sold." The old-time dealer "kept" a stock of goods for those who might come to purchase; the ancient bagman "visited" his clients and "took orders" in a rather leisurely social way. There is no better description of the selling methods of a reputable merchant in Queen Victoria's time than that given by John Ruskin, in his delightful picture of his father, driving through the English countryside in behalf of the firm of Ruskin, Telford and Domecq.[1] With his wife and little boy, the elder Ruskin, nobly outfitted in a "chariot," toured the shires of England, saw the art treasures of the magnificent seats, feasted upon the natural beauties of dale and hill, gently and sincerely celebrated his excellent sherry wine to those customers who looked forward to his visits as the coming of a friend—and returned to London with satisfactory orders. No days are quite as lovely as they shall look in retrospect: yet it seems there must have been warmth in that trade, quite aside from the calories of the wine.

Obviously, in an age of credit-expansion entailing a fierce competition for the consumer's money, such methods cannot exist. Where once the emphasis was upon creating things, the

[1] *Fors Clavigera*, Letter LVI.

great effort now must be in selling them. It is fatal to wait for the buyer to make up his mind. His mind must be made up for him, and without delay. He must be frightened, cajoled, shamed, hurried, and pestered into buying.[2] He must be assaulted (most advertising can be described as a technical battery), driven into a corner, and clubbed into submission. The excuse for such practise is that if goods are not sold, men will be out of work. This is true; but it is not the whole truth. Sooner or later, when overselling reaches a certain point, the machinery breaks down, and then men are out of work in good earnest.

The salesman imagines that his principal duty is to his immediate employers: in reality he is an agent of the basic creditors. It is he who is finally responsible for the payment of compound interest upon debt. When he falters, it is time for lenders to get frightened. Whether the salesman or the company he represents make a living wage or a profit, is only obliquely a concern of lending capitalists. The collapse of credit in October 1929 was clearly foreshadowed in June of that same year, when salesmen began to report, with long faces, to their employers that "nobody was buying anything." From that date, the volume of business turned steadily downward, though the gamblers in stocks, ignorant of what had happened, kept bidding up the share market.

The development of modern salesmanship, which consists in applying pressure to reluctant or dilatory buyers, has other than purely economic significance. The salesman has been developed, by what corresponds somewhat to "selection" among

[2] In the first year of the most recent depression, the United States Government hinted in no uncertain manner that a citizen who did not buy, whether he could afford it or not, was a kind of traitor!

botanists, into a being somewhat less and somewhat more than human. The type salesman is a product, indeed, of crammed credit, created to specifications for definite purposes. He has the lust for victory in personal combat, such as existed in the age of chivalry. He overcomes his adversary and feels a thrill of triumph. In a world where religious feeling is on the wane, there has passed into the salesman some of the old evangelical passion and unreasoned conviction of the proselyting sects.

No one that has attended a conference of salesmen, and seen them whipped into a strange fervor by a delegate from the "home office," and by marching songs that bid the employee to go out and sell Squob's Vacuum Cleaner or perish in the attempt, can doubt the awful neurosis that takes possession of the devoted creatures. The sales manager is an apostle. He calls upon the Galatians and the Ephesians to rally around him and spread the gospel of Squob. The tears spring to his eyes as he pleads that the "quota" demanded by the president (possibly Squob himself) must not only be reached: it must be passed. Testimony is heard from the brothers, as at a revival meeting. How Tompkins met an ugly fellow who threatened to set the dog upon him; how Tompkins overcame this infidel and "sold" him. A new method of door-to-door canvassing, which upsets the calculations of householders who make believe they are not at home. Special treatment for deaf "prospects," as well as for excitable females. How to explain the merits of an invaluable household necessity to a woman who is trying to get dinner and to still the voices of several crying infants at the same time. It is all very amusing, viewed as part of the human comedy, but it is appalling when considered as

the only method by which the economic machinery can keep in motion.

Against such highly trained specialists, backed by the barrages of advertising laid down at enormous cost, the buyer is almost defenseless. Buyership could be taught; but who would teach it? By all the forces of hungry capital, which can be fed interest only by driving the machines faster and faster, and by involving private incomes farther into the future, the suggestion of reasoned, prudent buying can be looked upon only as an unmanly art of self-defense. It is no use for the business man, the shopkeeper or the householder to lock and bar the doors against salesmanship. There is still the telephone and the radio. It is no use to fly from civilization—if that is what we enjoy—and build a hut in the woods. Before the roof was on the hut, one of Squob's salesmen would be at the threshold with a vacuum cleaner.

Behind all the complexities of modern political economy lies the simple fact that human beings are, speaking generally, of two persuasions: the first would spend tomorrow what they earn today; the second would spend today what they hope to earn tomorrow. From this rudimentary biological fact arise all conflicts that lead to economic crises: to panics, depressions, violent and revolutionary transfers of wealth, and perhaps most wars.

To the class that habitually gets before it spends, the demagogue appeals in vain. The usurer cannot profit much from this class. The pander and the parasite get no joy from it. Failing to exploit this class by the ordinary means, the political wasters of the world detest and revile it; its simple virtues are

the butt of ridicule by all prodigals and plundermen. It is perfectly true that this class retards "progress," if the word must mean that unruly conduct which hurries production and distribution to the edge of a precipice and then kicks them off: in every healthy sense this class is *conservative,* in that alone these people will always be the holders of capital necessary for the continuance of productive effort.

These people of *cash* persuasion have been preyed upon, especially by rapacious government, ever since the beginning of historical record. On the other hand, there have been periods when such people have thriven; and this was whenever governors were measurably honest, and when merchant and manufacturer restrained selling force to about what the existing wealth of the moment would prudently tolerate. Some selling upon credit was never dangerous to a position that was fundamentally of cash attitude. That a family should move into a house before they could pay the whole price of it was perhaps to be encouraged, because, in addition to the fact that it was a purchase of reasonable permanency, there was also the social gain of fee-simple ownership and husbandry.

On the other hand, all classical literature is rich in the depiction of the methods by which alert traders have always jockeyed the victims of debt-complex into buying what they could not afford; pushing them relentlessly from debt to debt, with mounting interest charges, until they were bankrupt and hearthless. It was never pretended that it was honorable for the strong-willed to prey upon the weak-willed, nor were tallymen and pawnbrokers held in high esteem, but the law was on the side of those who observed their obligations. *Caveat emptor* was not merely a warning to horse traders. It signified

primarily that the buyer must not enter into a foolish contract and then plead his imbecility to save him from the consequences.

The early severity of punishment for defaulting debtors was, as we have seen, the result of the custom of having the promisor name the terms of the bargain. This gave him ample time to consider what he was about to do. It prevented a glib salesman from talking his buyer into a trance, so that he would sign upon any dotted line. The form of the stipulation is amusingly preserved in the comedies of Plautus. For example, in Act I, Scene I of *Pseudolus,* the following takes place:

> PSEUDOLUS—Ask of me 20 minæ—ask them of me, I long to make the promise.
>
> CALIDORUS—Will you this day find me 20 minæ of silver?
>
> PSEUDOLUS—I will find them.

Now, here Calidorus is the borrower, the promisor; Pseudolus is anxious to make the loan, but he cannot by custom take the lead in the bargaining. The terms must be stated by Calidorus.

This is *buyership* as opposed to *salesmanship.* In modern selling, the seller does all the talking—and unfortunately most of the thinking. The buyer is lulled into a state of happy wistfulness by being shown that his happiness depends upon the possession of the thing offered: his happiness, his health, his prestige, or whatever his weak point may indicate. Delectable objects are dangled before his vision. He is the recipient of a thousand caresses in printed or spoken form. The humbler his position, the more touched his vanity by all this solicitation.[3] The suggestion is that he is an uncrowned king, and the world

[3] Without human vanity many trades and businesses would be non-existent.—DIOGENES.

is at command. In the midst of all this expert attention, one thing is put far into the background, and should it appear during the conversation it is brushed aside as of no consequence. This consideration is: what are the penalties for possession?

Let us suppose that the form of the Roman stipulation were followed by the twentieth-century buyer of an automobile on the instalment plan. Or suppose, to put it bluntly, automobiles were *bought* instead of being *sold*. Allowing for a little exaggeration, the promisor or buyer would say to the salesman something like this:

"Do you, Titius, promise to deliver to me, upon a down payment of $300, one of your masterpieces of enginry, the ownership of which will establish me as a man of taste and intelligence, the understanding being that for the following eighteen months, whether I have any income or not, or regardless of any accident that may befall me or my family, I shall pay to you $50 a month, plus interest charges at 8 per cent upon the full amount of the original lien (no matter how much I have reduced the indebtedness), so that I shall be paying perhaps as much as 15 per cent all told; further, that inasmuch as, after I have driven the automobile fifty miles or so, it will have a resale value of only 75 per cent of the cost to me; thus I am really paying an interest charge of more than 20 per cent upon the exchange value of the thing; it being understood that *you*, who show so much interest in my welfare, are not to be my creditor after the sale is made, but you will turn my promissory note over to a buyer and seller of debts, who will straightway take away my masterpiece of enginry if I fail to meet my instalment payments; and you, Titius, are distinctly not to be concerned in the question whether I can find the money necessary

to buy gasoline, tires, oils, a garage place, registration tax, license fee, etc., after I acquire the automobile: do you, Titius, promise to deliver this car to me upon these understandings?"

Titius would reply, "I do." This would be *buyership,* and Titius the salesman might feel, as he cannot always nowadays feel, that if Harmodius did not know what he was doing when he signed the contract, it was no fault of Titius'.

But all this is romantic and past. In no such way could goods now be sold as fast as the needs of compound interest upon credit demand that they should be manufactured and sold. Instalment selling of quickly consumable goods, which is from its very nature and origin and *purpose,* unconsidered buying, came into commerce because cash purchasing could not be relied upon to keep the *rate* of increase of production high enough to insure a profit upon capital.

Much might be said of the pressure brought by salesmanship even in cash transactions before the high development of instalment selling in the past thirty years; but in the face of the modern credit system, which presupposes that as few as 30 per cent of all buyers in the United States will pay cash for anything, the older methods are hardly worth discussing. In the long story of the advance of credit facilitation, the projection of debt-cramming into the consumer field was at first an anomaly that, except in a few instances such as real estate purchase, was viewed with distaste by conservatives. The apparent success of the innovation had, previous to the world collapse of 1929, stifled a good deal of the suspicion, and it is fair to say that, even after six years of depressive economic conditions, there is no general feeling that the credit expansion due to instalment buying presents a constant danger to that nice balance between

what-is-produced and what-people-can-buy, which in modern refinements of commerce becomes increasingly a hair-trigger affair. As to the moral aspect—the degenerative possibilities that lie in the tendency to have most of the people habitually and irrecoverably in debt—even less is said.

Even if there should be a disinterested inquiry into this maze of consumer credit, it would be many years before any definite conclusions could be drawn.[4] We must content ourselves, therefore, for the time, with considering what the proponents of consumption credit have said about the system, weighing their opinions and conclusions, especially after they have been submitted to the test of time and stress.

On the evening of November 17, 1927, John J. Raskob, Chairman of the Finance Committee of General Motors Corporation, gave a dinner in New York to Edwin R. A. Seligman, Professor of Political Economy at Columbia University. The General Motors Corporation, one of the greatest of automobile manufacturing companies, had induced Professor Seligman to make a study of instalment selling in order, as Mr. Raskob said, "to find out whether we were on fundamentally sound economic ground." The Professor, with a large corps of assistants, "spent fifteen months of hard work in completing an exhaustive treatise on this subject." [5]

[4] The United States Department of Commerce made a consumer debt study, canvassing 839 business and professional creditors located in 21 states and engaged in ten lines of activity. They found among other interesting things that dentists, doctors, undertakers and landlords did 90% of business on credit, compared with 54% for retailers. But among retailers furniture dealers did 89% on credit. As to repayment expectations, the retailers were confident they could collect 68% at a cost of 12% for collection; the professional men hoped to get only 58%, at a cost of 15%; 59% of service accounts were overdue six months or more; only 13% of retail accounts were so long overdue. The furniture men were most optimistic, since they could repossess the goods in fair condition; the undertakers were inclined toward pessimism as to repossession.

[5] *The Economics of Instalment Selling: A Study in Consumers' Credit.*

In introducing the distinguished guest, Mr. Raskob suggested that "the motor industry today is the greatest industry in the world and can be credited *largely if not wholly* with the prosperity our country and its people are enjoying." This was perhaps not an immodest claim, but it was an unfortunate one, as it turned out, for less than two years afterwards the country was plunged in the abyss of general bankruptcy, and it is a logical inference that whatever single industry could cause (largely if not wholly) the prosperity of a nation, must likewise be charged with its adversity (largely if not wholly). Mr. Raskob asked the question: "Does the creation of ten billion dollars of wealth by the dirt farmer differ in any way from the ten billion dollars of wealth created by reason of the automobile?"[6] He remarked that "if every motor-car buyer had been obliged to accumulate enough cash to pay the entire purchase price before beginning to enjoy the use of a car, I doubt if there would be even ten million cars in use" (instead of about twenty-five millions).

It is not to impute the slightest insincerity on the part of Professor Seligman and his associated investigators, to note the fact that the findings were wholly agreeable to the automotive trade, and to remark that the dinner tendered to the economist was in the nature of a gala, celebrating the conclusion that instalment selling is grounded upon the soundest economic principles. Nor is it cynical to remark that, if Professor Seligman's exertions had proved instalment selling to be unsound, the dinner would have been more private in character, and the circulation of the economist's address more limited.

[6] Although the answer to his question has been so long delayed as to be of doubtful benefit to Mr. Raskob, I am glad to reply: *Yes, it does, very, very much.*

In other words, the Seligman inquiry developed just what the instalment sellers had wished to believe. But I hope it will not be regarded as churlish to suggest that the question is far from settled; particularly as 1927 was the year when "prosperity" had reached its zenith, and many lugubrious events have since occurred.

Professor Seligman first noted that the instalment system is known by a large variety of names: "In England they have the curious name of the hire-purchase system; in France we find the amusing name of temperamental buying—vente à tempérament." [7]

Reduced fairly to categorical statements, the economist of Columbia University found that:

I. Instalment credit is as old as credit itself: there is no new principle involved: "the most familiar example of instalment credit involving the transfer of money or of the rights to wealth is found in our life insurance business."

II. Seasonal sales and the problem of what to do with accumulated stocks of merchandise stirred the manufacturers to provide the distributors with a means of paying for automobiles as they disposed of them. On the other hand, instalment selling "enabled purchase on the part of those who would find it inconvenient to pay in a lump sum."

III. It was found that not more than 60 per cent of automobiles are sold on credit to the consumer, rather than 75 to 80 per cent as had sometimes been suggested.

IV. The real distinction, in viewing credit, is not between production and consumption, but between different kinds of utilization. "If there is a positive or even a neutral utilization of

[7] This *is* amusing: but I fear the amusement would be wholly on the part of the French. Vente à tempérament does not mean temperamental buying in the sense in which the word temperament is used in English. It means a "tempered" sale, as we speak of "tempering a blow." It doesn't "hurt so much"—at the moment of buying.

wealth, credit is legitimate; if there is a wasteful or a destructive utilization of wealth, credit is illegitimate."

V. "To object to instalment selling because consumption credit is in some way more dangerous than production credit, disclosed a poverty of analysis and an ignorance of the history of business life."

VI. "Economists have in modern time been making intelligible what is known as the 'economy of high wages.' High productivity, high efficiency, high standard of life, go hand in hand with inventive ingenuity, with increase of capital, and with augmented prosperity."[8]

VII. Consumers' credit increases production.

VIII. "Instalment paper does not impair liquidity of credit or involve inflation, more than any new extension of credit."

IX. Frozen credits are not necessarily the concomitant of instalment selling.

"Instalment credit is not a new device." To support this idea, Professor Seligman offers the insurance business as a parallel. "Under the life insurance method," he says, "we either pay annual instalments in order to receive later a capital sum, or we pay down now a capital sum in order to receive the periodical annuities." I cannot imagine where Professor Seligman received the notion that the life insurance business is conducted upon an instalment credit basis. In a modern world of expanded credit, the life insurance companies are extraordinary in that they do business for cash, and for cash only.[9]

[8] The theory of the "economy of high wages" has received a severe shock, but whether it is true or false will require, it seems to me, a much more extended observation. Those who doubted the validity of the idea point out that the "economy of high wages" (part of which economy seems to have implied very liberal credit buying of luxuries) resulted in the creation of a body of workers, some 11,000,000 in number, who received no wages at all! But the *use* of the wage will probably always be more economically important than the *height* of the wage.

[9] It appears certain that Professor Seligman has confused insurance companies as *insurers* with insurance companies as *bankers*. Unused portions of premium, left with the companies, do indeed grow with interest, but this has nothing to do with the cost of insurance. It represents precisely the amount the insurance proved *not to cost*. This money, withdrawn and placed in a savings bank, would be in identical position.

Nor can we admit any parallel between consumer credit and "payments made to the government in the form of instalments on taxes." Compulsory payments made to governments are in a class by themselves; just as are government borrowings. Governments have powers denied to the individual. The government, as taxer, has the power to confiscate and destroy; as borrower, it cannot be forced to pay.

"Instalment selling enables purchase on the part of those who would find it inconvenient to pay in a lump sum." Of course. They not only "find it inconvenient"; in many cases they could not buy at all until they had saved the requisite amount. This applies to hundreds of other purchases besides automobiles. The purpose of consumer credit is to sell something *immediately* to a man, against pledged income, that he might not be disposed to buy until a later time. It is an axiom in selling that a deferred sale is a doubtful sale. Why be mealy-mouthed and polysyllabic about such an obvious thing? The introduction of instalment selling on a wide and varied field was to stimulate sales, and therefore production. The purpose was not to benefit the consumer. The consumer *may* be benefited. That is incidental.

Whether the percentage of instalment-sold automobiles is 60, 70 or 80, is not very important. It is very large, and sales for cash only would greatly reduce the production. Professor Seligman says that "in the year 1926 when the total volume of retail sales of commodities, generally called articles of consumption, amounted to 38 billions of dollars, the volume of instalment sales in all these goods amounted to about 12 per cent of the whole." In other words, there was four and a half billions of dollars in credit on these sales, to be added to the enormous

amount of other credit which had to earn compound interest. It indicates the colossal credit inflation that had possessed the country, without anyone, even the economists, suspecting that there was a danger. Professor Seligman's remarks implied his belief that the nation's economy was in a healthy condition!

"If there is a positive or even a neutral utilization of wealth, credit is legitimate; if there is a wasteful or a destructive utilization of wealth, credit is illegitimate." I am glad it is Professor Seligman who must support that thesis, and not myself or any other feebler debater. The "legitimacy" of credit, approached from any angle, is a labyrinth. The attempt here seems to be to show that the automobile is a great force for happiness and good. Most people think so, despite the fact that in ten years more people have been killed in the United States by these vehicles than were killed, in the American forces, by the greatest war in history; and that the automobile is one of the greatest facilitators of crime. Whether the automobile is a blessing or not, has nothing to do with instalment credit. The utility of the article sold is not in question. With instalment credit, a man may buy a pistol and proceed to a murder. Credit is not concerned with this doleful result. The question is still: what is the economic effect, not of automobiles, but of instalment credit?

"Instalment paper does not impair liquidity of credit or involve inflation more than any new extension of credit." "Frozen credits are not necessarily the concomitant of instalment selling." These two points have been partly settled by the depression that came upon the world just after Professor Seligman concluded his studies. To read today that frozen credits are not the concomitant of instalment selling is like a hoarse

and ironic voice coming from the tomb. In 1929, 1930, 1931 and 1932, five thousand seven hundred banks closed their doors upon the depositors' noses in the continental United States. If these closings were not the result mainly of frozen instalment credits, the disconsolate bankers must have been deceived. To segregate the effect of automobile consumer debt in this whole picture of credit inebriation would be impossible, for the infiltrations of any one kind of debt into the whole are impossible to follow. The debt load became impossible to carry. And there, exactly, we understand the full meaning of the sentence: "Instalment paper does not impair liquidity of credit or involve inflation *more than any new extension of credit.*" This might be so: it is not demonstrated. Assuming it to be so, it was *exactly that new extension of credit,* superimposed upon an already creaking underpinning, that tumbled the structure to the ground.

To be fair to Professor Seligman, it must be said that when he made his inquiry the world was a rosy-dawn place. The lubrication of economic machinery was perfect. Only a few gloomy hunks suspected that anything was wrong. Professor Seligman had a predisposition toward the beneficent quality of debt, as shown by his studies and pronouncements in respect of public borrowing. And in justice, too, it must be added that no very considerable number of people are yet persuaded that debt had much to do with the world's collapse. Some like to believe it was entirely the fault of the war; some may believe, like Professor Jevons, that it was sun-spots; and Franklin D. Roosevelt was elected President on the belief that Herbert Hoover had maliciously planned and executed the whole affair.

XII

THE DEAD HAND UPON PRODUCTION

For the employment of money is chiefly either merchandising or purchasing; and usury waylays both.
BACON

IN a primitive community, anyone that talked about the "evils of overproduction" would be regarded as a lame humorist. If the community had any aspirations to rise above its bare subsistence point, it would necessarily produce more than its imperative needs. In the first place, there is no such thing, in the vicissitudes and hazards of production, as *enough*. Less than *too much* is *not enough*. The importance of a prudential surplus must have been one of the earliest flashes of human knowledge.

But even more important, if we take a nobler view of the possibilities of the human animal, is the fact that all leisure, and consequently all luxuries, must arise from overproduction. Luxuries, even the simplest, imply the leisure to enjoy them. It is a modern fashion to enjoy leisure by being propelled over the earth's surface in an automobile; but there must have been a time when sitting in a chair was a triumph over nature. As for art, though the passionate individual may rise above hardship, it is certain any large cultivation of beauty cannot be had upon empty and apprehensive stomachs. Whoever painted the Crô-Magnon cave pictures, had eaten; and the Acropolis was not decorated by the works of men who had to keep dropping their tools to seek for garlic, oil and bread. Nor can the philos-

opher, in Emerson's dry phrase, afford to be "duped by a dandelion."[1]

If a state can be imagined where men were possessed of everything they could imaginably want, then any further addition to an adequate supply would be a foolish overproduction (though not even then an evil), and it would check itself. But to coin a glib epithet like "underconsumption" which passes current as a great thought among those who parrot novel slogans, does not enlighten us in the least as to what has happened in our industrial economy.

Until a few years ago, people spoke of "overproduction" and felt sure they knew what they meant. Then, one day, some bright sloganeer uttered the epithet "underconsumption," and although nobody could possibly know what *that* meant, it passed current as a brilliant innovation. We now hear that "the trouble is not overproduction; it is underconsumption." It sounds impressive. It is like a "square deal," a "new deal," and "the abundant life."

The farmer who takes his potatoes to a glutted market, and finding that nobody wants them, is forced to cart them home for the pigs, is under no misapprehension as to what has happened to him. For him, potatoes have been overproduced. It makes not the least difference that there are people a thousand miles away who are pining for the inner solace of the potato. The New Mexico sheep grazer, informed by Kansas City that the carload of lambs he has shipped will not return more than the cost of the freight, is quite aware of the meaning of overproduction.

[1] As was Nathaniel Hawthorne at Brook Farm. "How shall he become wise that holdeth the plow?"

But when the word underconsumption is used, who knows what the user is thinking of? Produce is a reality. Consumption is here some ideal quantity. Do we mean to say that if there were a more equitable distribution of wealth, the surplus could be gladly bought? If so, we are thinking not of economy, but of some concept of social justice. Are we thinking of faulty distribution, caused by insufficient or too costly transportation? This is something for enterprise or politics to deal with. Are we thinking of the needs of the indigent, the afflicted, the unlucky? It becomes a humanitarian idea. What the proponent usually wishes is a change of a political order.

In "pure" political economy, that is, in the Œconomic contemplated by Aristotle, overproduction can be no menace at all. It merely means that the producer has put so many hours of leisure "in the bank." He can loaf and invite his soul tomorrow instead of today. Only in a usury-economy, or speculation-economy, does overproduction become an evil; and it is then not an evil in itself, but because its employment disrupts the delicate harmony of production-distribution-consumption upon which the success of a speculation-economy rests. Then the trouble is not overproduction: it is distortion of production.

1. There are three principal forces that bring about a perversion of production. One is war. The destruction of wealth in war being so immediate and so apparent, the warring nations (and the neutrals, so far as they can sell or carry) indulge in a feverish effort to replace this waste as quickly as possible. This leads to the multiplication of plant facilities far beyond normal needs, to the plowing of earth that should not be turned, and similar acts that must end in throwing the whole

productive plan out of proportion. But this would not cause so much harm in the long run were it not that:

2. The end of such a war, especially if it include several great nations, sees another feverish and unreasoned program set to work. The nations are now impoverished and saddled with debt. To rehabilitate themselves they think best to spend as little as possible in trade with other nations, and sell as much as possible. To this end they set up tariffs, or quotas, or restrictions of some sort, and thus begin a duplication of effort which must send good existing plant into idleness. Such idle plant, let is be understood, is itself in a debtor position, and cannot stand still without loss. If the plant does not operate, that does not mean that compound interest stops. Quite the contrary. It should be noted that the effect of tariffs, regardless of the incidence of war, must tend to distort production. This seems so obvious as to require no explanation, since tariffs are favors to special industries. If all were sheltered alike, there would be no sense in tariffs.

3. In the perversion of natural production balance—which, lacking autocratic authority over all the efforts of man, must be maintained by empirical supply-demand checks and balances—the chief disorganizing factor is debt.

Debt demands to be serviced, ideally speaking, regardless of any conditions that may exist in the production-distribution-consumption chain. The creditor position may be, and constantly is, attacked and despoiled by political means; but its strangle-hold upon production can never be broken within the economic setup. Stanley Jevons in 1870 charted this economic reef when he said:

> The interest of capital is the rate of increase of the produce divided by the whole produce; but this is a quantity which most rapidly approaches zero, *unless means can be found of continually maintaining the rate of increase.* There is no reason to suppose that industry can return any such vastly increasing produce from the greater application of capital.

"Unless means can be found of continually maintaining the rate of increase!" This presents an ultimate impossibility.

Jevons meant his axiom to apply to capital in the widest sense, but it will be found that the same diminishing return may occur to capital employed in a particular adventure. As soon as the effect of this inevitable tendency is felt, capital bestirs itself to find some method of "continually maintaining the rate of increase." Though there can be no such method in the long run, there are illusory practises that temporarily suspend the operation of the rule. One of these, and a favorite one, unhappily, is war.

Now, I have little patience with people who think that a large group of capitalists habitually sit in their overstuffed chairs and plan to start a war, so that they can derive great profits out of the massacre of human beings. The impulse does not need to come from such a diabolic calculation. Just as Karl Marx discovered, in studying the Commodity, that it had somehow detached itself from its use-value and become a Thing-of-Itself, endowed with the powers of an entity; and just as Money, in man's imagination, has ceased to be a convenient tool of exchange, and become a force independent of, or in addition to, buying and selling: so Capital attains a personality, and seems to act upon a motivation of its own, which may be quite contrary to the intent of the individual possessor

of capital. So we speak of Capital as being timid, or Capital "rushing to cover," and we speak rightly: for there are times when it is perfectly apparent that Capital is dominating the capitalist, and especially the small capitalist.

Now, this is notably true of lent capital. If it finds itself thwarted in one direction, it wheels and goes off on a new one. If the internal economy of a country has arrived at a state where interest is in danger, it begins to look abroad. If the world conditions are such as to preclude any betterment, and competition within its own circle has proved itself destructive, it looks for new fields. It is then that the idea of conquest of new lands or new peoples begins to loom. Capital hopes for a series of Mithridatic wars, just as those wars came along to bolster a tottering internal economy of Rome. Whatever may be the pretense or even the honest belief of such a people, the real purpose is loot and subjugation, for this will attach to the investment circle both prosperity and a new ring of interest-paying terrain, and postpone that zero, or approaching-zero, apprehended by Jevons.

But before such giant ventures are attempted, of course, there are scores of possibilities to be tested within the existing field. In industry we see investment capital swing from one product to another, always deserting a failing productive or distributive organization at the time when it most needs support. We see it vibrating between private and government debt, trying to guess which will fall first in a decline, or rise first in an up-swing: and it is always the punishment of disingenuous government that capital will flee from it just when the crisis comes. Still, as a disingenuous government usually proves to be a fraudulent government in the end, and as government is a

debtor which cannot be forced to pay, capital never gets away with a whole skin.

We are concerned, however, mainly with the impress of usury capital upon the productive machinery. Here, its thrusting tactics are certain to show their effect in disproportion, or distortion. What is commonly called overproduction is the result. It tries one avenue after another to see whether the law of compound interest cannot be matched somewhere in production. In doing so, it stimulates certain industries at the expense of others, putting pressure upon consumption to take care of the increased volume, only to find itself at last with plant facilities far beyond its needs: and compound interest running day and night.

"Compound interest is the only time-quantity relation that shows a constant growth factor. If the time-quantity relation in production showed a constant growth factor, then its quantity and growth must increase at an ever-accelerated rate, until in a short time its magnitude would be beyond comprehension. Thus in 1865 the production of crude steel was growing at the rate of 92.4 per cent a year. If this growth factor had maintained continuously up to 1930 (65 years) then the mean production of 1930 in one year would have been $32{,}258 \times 10^{20}$ tons, which is an amount of steel considerably larger than the earth."[2]

The attempts of usury or compound interest to extricate itself from this hopeless situation, wherever it becomes patent, may be likened to the writhings and thrashings of a boa-constrictor. Not a square inch of the monster but changes its position with lightning rapidity until something happens to

[2] Bassett Jones, *Debt and Production.*

put an end to the struggle. What happens to capital at compound interest, of course, is that it is being continuously expropriated either *by* or *for* the debtor class, through defaults or by legislation. Both methods imply a violation of contract, which in modern economy is coolly regarded as a technical corrective, though vociferous lip service is paid to the *theory* of obligation. It could not be otherwise, however, because the only solution to a Gordian knot is violence.[3]

Economy has no solution for this problem presented to producers, because the trouble arises from nothing inherent in production, but from a growth implanted upon it, spreading with cancer rapidity. If you survey this situation, you begin to understand why Aristotle, writing as a *political* economist, insisted that while money could beget money, it was not in nature that it should.

To meet this absurdity of relation between the growth rate of interest and the faltering pursuit of production, some of the current economists have had recourse to a "theory" of debt in terms of money, which considers money as independent of wealth. J. M. Keynes is the shepherd of this flock,[4] and the flock is a vast one, because Keynes is telling them what they ardently wish to believe. Nothing is more annoying to a profligate world that has squandered its substance than to be told that when it spent money it consumed goods; contrariwise,

[3] The answer of Diogenes to Zeno's flying-arrow fallacy was to spit on the floor contemptuously and stamp out of the room.

[4] Mr. Marriner S. Eccles, governor of the Federal Reserve Board, told the House of Representatives Banking Committee, March 19, 1935, that "in times of depression, a governmental deficit [debt] is needed." The newspapers said that as Mr. Eccles expounded his views daily for nearly two weeks, "orthodox economists on the committee were *startled*." Startled, no doubt, at the sudden perception that they had, as individuals, lost great opportunities. Instead of paying their debts, they should have canceled them by incurring new ones.

nothing could be more cheerful than to learn at the feet of a pundit that "debts cancel out." If debts cancel out without the help of any existing goods to support the transaction, a new and beautiful world opens before us. Mankind can give up producing altogether, and subsist upon promises to pay. There is no exaggeration in this. It is the logical conclusion from Keynes and Company's theory of money as a "closed" or independent system. Also, it is no wonder that the Keynes optimism was (by report) the abiding faith of the Roosevelt administration that came to power in 1933. The cry of a disillusioned populace was for magic: and the magic has so far (1936) taken exactly the form of creating fifteen to twenty billion dollars of new debt on the theory that debts will cancel out.

Unhappily for debtors, debts do not cancel out debts. Debts cancel out wealth; or, wealth cancels out debt. Those who think that debts cancel out debts are confusing book debts with net debts: or, if you wish to state it differently, they are confusing proximate debt with ultimate debt. Strangely enough, the most ignorant people, when dealing with each other, never confuse the two. Smith, a simple workman, who has saved money and invested it in a house, rents the house to Green. Green, a carpenter, makes some small repairs on the house by agreement. In settling their accounts, Smith does not say, "You owe me twenty dollars for rent. I owe you ten dollars for work. You give me twenty dollars, and I will give you ten dollars." What Smith says is: "You owe me ten dollars." The only debts *paid* are net debts, or ultimate debts.

Suppose Peru owes Ecuador one million dollars, and Ecuador owes Peru one million dollars. These debts cancel out.

But *what* debts are they that cancel? They are book debts. The real debts are not there. Where did Peru get the credit necessary to contract the debt? From her banks. Then the debt remains—but now it is a debt owed by the government to its banks. Where did the banks get the money? From "depositors" of the banks. Where did the depositors get the money to lend the bank? By creating wealth—by production. Very well; now at last we are facing the ultimate debt. Some persons, somewhere, have wealth to the amount of one million dollars; and those persons are the net creditors. Those persons must be swindled if the cancelation of book debts is to be taken as the end of the affair.

Bassett Jones says truly that Keynes *et alii* are merely repeating in a ponderous way the fallacy of the brain teaser that has amused so many social gatherings. In this "puzzle" A owes B ten dollars; B owes C ten dollars; C owes D ten dollars, and D owes A ten dollars. In all, the four men owe a total of forty dollars. But if A pays B ten dollars, and B hands it to C, and C hands it to D, and D hands it to A, forty dollars of debts have been settled with ten dollars, and A still has ten dollars. This happy solution leaves most people open-mouthed and ready to praise Allah that he is so kind to the indebted. Only a curmudgeon would take the joy out of life by introducing another character, E, into the circle. E owes nobody, but A owes E ten dollars. Let A, who *has* ten dollars, pay E first, and let E put the money in his pocket and go home. Now see if the members of this circle of penniless optimists can "pay" their "debts"—if they owe any debts. But do they owe any net debts? Why not get together, like a group of cleaned-out gamblers after a bad day at the races, and just agree

to tear up the I O U's? Where there is no *payment* finally due, there is no debt in any sense that need concern us.

The little brain-teaser, however, suggests something quite different from what was intended. In this debt-cancelation, A starts with a creditor position and ends with one. In real life, if A fell into the company of a group like this—owners of a gold mine, perhaps—A's ten dollars would never get back to him. The world is cluttered with chains of debt-kiters who are looking for an A. The introduction of a solvent singer into a glee-club of debt creates a sense of relief similar to the appearance of a man with actual cigars and matches at a marooned party that has been smoking Barmecide tobacco.

We are now forced to a most embarrassing conclusion, but one that has at least the merit that it explains an economic situation which is otherwise inexplicable: that production is no longer spurred and retarded by the consideration of use-values, and therefore economic needs, but by the necessity for providing capital with a compound interest return. So production is controlled by debt.

But in using the word "control" it must not be inferred that any scientific method is meant. Capital is a giant, but a giant with only one eye, and that eye on one side of the head. This explains why "prosperity," in modern economy, is always illusory. Whenever production seems to be, at any given spot, growing at a rate sufficient to make the debt structure sound, it is only necessary to look somewhere else for the reason. Debt service is being recruited from exploitation at another point, or by an ingenious financial device of paying debt with debt. In the first instance, Great Britain could for many gen-

erations, with an adverse trade balance of goods, continue to thrive; the world collapse of 1929, which was really the collapse of 1920 delayed nine years by the use of American reserves, was the definite answer to the second artifice.

"It is to be feared," said Jevons, rather cautiously, "that the rapid accumulation of compound interest is often overlooked in estimating the cost of public works and other undertakings of considerable duration." Why Jevons should have restricted his view to government activities I do not know: if it were true only of what appears in the form of public credit, it would not be very important, as the state is always in a position to throw off the pretense of debtorship and reveal expenditures as a capital levy. The debt structure must be taken as a whole, in considering what production can bear; or, looked at from the creditor's angle, what invested capital can get.

When the first pinch comes, all private and corporation fixed charges tend to be met out of an attempt to squeeze the production plant. But obviously this is an attrition that cannot go very far. The next step is to deflate the debt, a service which can be managed to some extent by cutting the interest rate, though it is not always possible to do this. Following that, the only thing possible is to deflate the principal debt itself, and this effort sees a scramble among the creditors to determine which shall be led to the sacrifice block.

"The possible growth of debt," says Bassett Jones,[6] "is a direct function of the growth of production. If production ceases to grow, automatically the debt ceases to grow. Deflation of the faster growing debt may serve as a corrective so long as the growth of production is increasing. But thereafter the relative

[6] *Debt and Production.*

deflation becomes excessive. Once production reaches a maximum, and consequently its growth is zero, total deflation is a necessary consequence. . . . It looks as if we were suffering from overproduction of debt, not overproduction of goods."

This is a sorry outlook for the creditor class, if true. Is it true? The conclusion of this mathematician, who has served notice in his preface that he will not welcome criticism based on other than "metrical, or measurable, facts of our economy, and calculations derived from the same statistics," is precisely the same, as a conclusion, as those predictions of a hundred philosophical thinkers in the past two thousand years. It is only expressed differently, and with whatever authority derives from engineering technique. Indeed, he is mistaken who thinks the identical situation has not arisen before in economic history, not once but many times. Total deflations *have* taken place, and for the same reason. The thing can happen in any type of economy where there is a debt load, though naturally it is spread and accelerated by modern banking machinery and communications. Were it not that new lands and new hands are constantly brought into the debt and production orbits; that default is constantly at work on the debt total; and that the audacity of debt-kiting differs in different periods, the recurrence of total deflations ought to be a matter of almost as definite prediction as the return of a comet.

As to the control of production by debt, there would seem to be too many current and glaring examples to leave anyone in doubt. Wherever there are fixed interest charges, a plant, agricultural or industrial, must operate or be eaten up, unless a fraudulent bankruptcy can be devised. The opinion of the debtor-operator as to the advisability of producing in a given

circumstance, has nothing to do with it. The desire to fulfil obligations is still, in spite of severe temptations, fairly strong. The farmer of mortgaged acres is not in a position to subsist. He must produce for market, regardless of price. The attempt of government to relieve him of this necessity merely shifts the debt burden to another spot.

In the time of post-war flood of capital, when interest rates seemed of no importance, and a vast optimism disguised the truth that most of the "money" being whirled about was fictitious, it was easy for venturers to set themselves up in manufacture. In such a period the greatest profits, aside from banking and outright gambling, are in capital goods; and this chance to provide new plant was an additional spur toward converting journeymen rapidly into enterprisers. It is clear that the pressure of compound interest comes from every direction toward increasing plant facilities; every industry and most of the individuals that can be benefited are in the debt circle. How could the question of use-value enter? Plutarch, in his *Moralia,* describes "interest rolling on interest as wave on wave," and that is an accurate picture of what happens. So long as the tide is coming in, it is irresistible; fiscal devices like raising discount rates are easily brushed aside; but when the tide goes out, the stranded whales litter the beach of economy, and the process of removing them is not only expensive but rather nauseating. The apportioning of blame then begins, everybody charging everybody else with stupidity and excess: it is a curious fact that the real culprit, compound interest, is seldom challenged.

The control by debt does not stop with production, naturally. It projects itself into distribution and consumption. The re-

sults in consumption are discussed elsewhere in this book; but it is worth while to consider the colossal amount of wealth that has been expended in the United States in a duplication of distributive function, responsive to the hunger of production to keep up with fixed charges. At least one perfectly useless transcontinental railway came into existence for this reason alone; a railway that paralleled an existing efficient road for thousands of miles through the identical territory; and thousands of interurban traction facilities were provided that either uselessly competed with existing properties, or tapped territory where there was never the slightest chance of adequate return.

Finally, we must ponder how the exaction of debt upon production has worked toward diverting the creation of goods from the conservative and the conscientious to the reckless and the shoddy-minded. A good many years ago Walter Bagehot, who may be regarded as a typical gently-conservative Englishman, was bewailing the effect of credit upon British manufacture and trade. "When we scrutinize the reason," he said, "of the impaired reputation of English goods, we find it is the fault of the new men with little money of their own, created by 'bank discounts.' These men want business at once, and they produce an inferior article to get it. They rely on cheapness and rely successfully." This is the bitter comment of a man who loved quality and craftsmanship; and perhaps, in a time of standardized production, it will be hard to understand. Bagehot went on to explain:

"If a merchant have £50,000 all his own—to gain 10 per cent on it he must make £5000 a year, and must charge for his goods accordingly. But if another has only £10,000 and borrows £40,000 by discounts (no extreme instance in our

modern trade) he has the same capital of £50,000 to use, and can sell much cheaper. If the rate at which he borrows be 5 per cent, he will have to pay £2000 a year; and if, like the old trader, he make £5000 a year, he will still, after paying his interest, obtain £3000 a year, or 30 per cent on his own £10,000."

Now, this sounds, in 1936, pretty archaic; and I am afraid Mr. Bagehot was guilty of a fallacy in his reasoning, for the older merchant could equally say that he had made 30 per cent on 10,000 of his 50,000 pounds, and 5 per cent on the remainder. It doesn't make any difference, in that sense, who supplies the capital. What does make a difference is that the "new" man, the bank borrower, is risking money which is not his own, and let him be as honest as he may, he cannot have the same attitude toward the investment as though he had made the money by his own industry. He will take greater risks; he will care less about quality of product; he will pretty surely stimulate output and cut prices, and give the self-backing merchant a heartache. All exceptions to the contrary, money will always be more prudently handled by those who have earned it than by those who come at it by an easier route, such as inheritance or borrowing. The possessor will usually be as much more cautious and husbandlike as the farmer-owner is, compared to the tenant-farmer, or the owner-resident compared with the renting resident.

But is it not a little curious that Bagehot did not see the principal reason why the "new" merchant should drive hard, undersell, cut corners, and scorn little matters like quality? This man, controlled by a debt, was working under the eye of an overseer. What difference whether he wished, in his heart,

to do this or that? The only thing that could save him—and his associates in the same galley—from going down as failures, would be the ability to maintain a growth-rate of production commensurate with the growth-rate of interest. That is exactly what it amounts to, viewing both debt and production in the whole. It would seem a task that left little time for esthetics. It might even prove dangerous to the morals.

XIII

PUBLIC DEBT

The seeming truth which cunning times put on,
To entrap the wisest.

Merchant of Venice, Act III, Scene 2

In the last decade of the seventeenth century two rival monarchs faced each other across the "English" Channel. Louis the Great, surrounded by magnificence, impregnably intrenched upon his throne, supported by a court that, however depraved, was loyal and brilliant, was nevertheless facing the inevitable fate of all prodigals. The exchequer was pumped nearly dry. "I loved war too much," said the king, wearily, on his deathbed. He was not so fortunate as his great soldier, Turenne, who departed upon the battlefield in a blaze of honor, having created as many corpses and widows as his genius allowed, for the glory of France.

In England, William, late Prince of Orange, uneasily shared the throne with his wife. He had gambled his life and his fortune for this prize, and might have lost both, had not the incredible James, by his folly, tossed the plum into his successor's lap. A prince of courage, honor, and vast capacity, William was still a Dutchman, and Englishmen did not love Dutchmen. They had been humiliated by Van Tromp; and this new monarch was cold, stubborn and unsocial. It was said that his boon companions were all Dutchmen like himself: so they were, and it was no wonder, for William had

received, with the crown, the basest gang of cutthroats that ever disgraced a kingdom. In 1690 the king was so utterly disgusted with the treachery and intrigues of these aristocratic banditti that he actually packed his bags and ordered a ship to bear him back to Holland, averring that perhaps his wife, who was born on British soil, could understand such frantic and despicable politicians, but he could not.

The wild excesses of the restored Stuarts had plunged the exchequer into a crazy state. Riches were indeed pouring into the island from the East, but they took lodgment with the merchants and goldsmiths, who secreted them in their strong boxes. The taxation upon the cottagers was crushing; tax-gatherers collected "hearth money" by forcible entrance into any poor man's hovel, and snatched the bread-board or the pillow. A land-tax of four shillings in the pound was forced upon the peers by William's threat to dilute the peerage, and was paid with grudges and threats, but still the treasury languished. War, and the fear of war, was consuming money faster under a prudent king than the luxury and corruption of the previous court had done.

Louis XIV was amazed when he learned that the Commons of England had laid upon themselves such an unexampled burden of taxation. "My little cousin of Orange," he said, "seems to be firm in the saddle. No matter; the last piece of gold will win." Louis was right; the last piece of gold did win; but it was not as he supposed. It was to be an ordeal of credit. The gold that won did not have to be in the royal treasury. It came down to a question of whose promissory note was better.

In the race to repair the two shattered exchequers, the odds

seemed to favor Louis. In Colbert, as finance minister, he had the services of the ablest comptroller in Europe, a man of unwearied diligence, large views, notable probity, and experience. In turbulent Britain there was no one whose financial ability could be compared with that of the unemotional, far-sighted descendant of Rémois merchants, whose job it was to find the money to satisfy the king's passion for the three greatest extravagances of monarchs—war, display and building. Marcus Crassus told his friends that the passion for building was ruinous; he bought his houses cheaply from those who had ruined themselves. Louis le Grand did not believe so; he always had a new project for Mansard.

Colbert was not popular. A good comptroller should not be. Louis respected his finance minister, but did not like him. The peasants, "eating the grass and roots in our meadows like cattle, devouring dead carcasses, and on the verge of eating one another," execrated him who, they thought, was responsible for their condition. They could not know, poor wretches, that Colbert was wearing out his life vainly trying to suppress some of the crushing imposts. It was found necessary, at the death of the finance minister, to bury him at night, to avoid the insults of the people.

"Oh," exclaimed Colbert one day, "if only I could make this country happy!" He meant it; but he knew too that it was impossible. "I place myself entirely in your hands," said Louis to his minister; and no doubt the king thought *he* meant it, too. To the proudest and most powerful monarch in the world, Colbert talked with a frankness, a brutality, which would be incredible to the functionary of any democratic ruler. "A useless banquet at a cost of a thousand crowns," he said to

his master, "causes me unbelievable pain. It has seemed to me, your Majesty, that you are beginning to prefer your pleasures and your diversions to everything else. At the very moment when your Majesty tells me that we must economize to provide for the navy, you spend two hundred livres for a trip to Versailles, including thirteen thousand pistoles for your gambling expenses and those of the queen. The right thing to do is to grudge five sous for fripperies, and toss millions freely around when it is for the good of the state."

Colbert knew how to spend millions intelligently. He brought back the cloth industry, the art of making tapestries, glass works, lace factories, and improved the roads. He would have lifted the burden of indirect taxes if Louis had accepted the hint to "moderate and retrench his expenses." The maintenance of a teeming, spendthrift court made talk of economy mere useless prattle. At the age of sixty-four Colbert took leave of a world that would not listen to his sagacious advice. When he was dying, the king was moved to inquire after him, and sent a kind letter. The departing finance minister had his eyes closed, and pushed the letter aside. "I do not want to hear any more about the king," he sighed. "Let him leave me alone." Colbert was done with kings, money, taxes and balances. According to Madame de Maintenon, Louis "felt a slight sorrow." He readily forgave Colbert for not reading his letter.

While Colbert lived, he had constantly warned the king not to contract loans. If it was impossible to raise the necessary money by taxation, he said, then cut expenses. If the king would not cut expenses, then try new imposts. Perhaps the outcry of the taxed people would convince the royal spend-

thrift that he must halt. But to *borrow*—that was to blind both the king and the people to the dangers of the situation. Louvois, who had more influence with the king, defeated Colbert upon this point, and the monarch pledged his honor to the pawnbrokers.

"You are triumphant!" sneered Colbert, speaking to Louvois. "You think you have done nobly! Don't you suppose I knew as well as you that the king could get money by borrowing? I advised him against it. Well, you have started the credit game! Wait and see. The king will increase his extravagance. You will have to raise taxes to pay the interest. If the loans have no limit, neither will the taxes."

This was not, to be sure, the kind of "public debt" which arises from the vote of a real people's parliament, and such as was about to begin in England. Nor was it a debt which in the modern manner could be manipulated as a secondary currency. But otherwise it amounted to the same thing. At the death of Louis XIV, this debt to the money-brokers was more than two and a half billions of gold livres. Anesthetic money—by the borrowing route—had done precisely what Colbert said it would, and some other things besides. The factories he had started closed their doors, closed by the ferocity of taxation. The roads had fallen into streaks of mud, and the army was unpaid. Louis XV, first under the regency, then in his majority, succeeded to a financial shambles, which only war could momentarily hide.

On the other side of the Channel there was no eating of grass by the cottagers, but there was tax-farming and distress. William and Mary were not blamable for the sorry state of

the English finances. It was partly an inheritance from the evil Restoration, and more to be charged to continuous rumble of gun-carriages across Europe and on the frontiers. The currency was in deplorable condition. Everyone fortunate enough to have powerful shears, clipped the silver coins of part of the metal and passed them on. Tonson, the publisher of the poet Dryden, paid royalties one day with coins so mutilated that none could be passed. Dryden sent them back with a letter: "If you have any silver that will go, my wife will be glad of it. I lost thirty shillings or more by the last payment of fifty pounds." It was a great time for the "bankers"; really, they were money-changers. The goldsmith Duncombe, when the commerce of England was at its lowest ebb, paid ninety thousand pounds on the nail for an estate in Yorkshire. Currency juggling, whether coin clipping, revaluation or inflation, must unfailingly enrich those whose business it is to deal in money speculatively. It can profit nobody else.

The most promising politician, in the search for someone to assume the Treasury post, was Charles Montague. Of this man, Macaulay speaks in such glowing terms as to invite the amazement, if not the suspicion, of the modern student. The historian reluctantly admits that Montague was a mediocre poet; even grants that "to be an Adam Smith and a Pitt is scarcely possible." But the important question remains: what talents had he for the exchequer? and the answer, at this distance, seems to be that it would take five thousand Charles Montagues to make one Colbert. A diligent and unbiased search reveals that this Treasury Lord had one original idea in the realm of government finance. It having been proved

dangerous to abuse the peasant any longer by forcible entrance upon his cottage by the gatherers of the hearth tax, Montague proposed in 1695 to change it to a window tax. The House having passed this salutary law without a division, it was now the pleasure of the humble to have their windows inspected instead of their chimneys. But it is without question that Montague was an adroit, daring politician, willing to take risks for large stakes, fluent, impressive and masterful.

The English land-taxes which had so much surprised Louis XIV were not sufficient to balance the budget. In 1685, £1,400,000 had sufficed for the whole charge of government, and a mad government at that. Now, for 1693, more than four times as much money was going to be required. Taxation had been pushed farther than ever, yet the exchequer was going to be a million pounds short. On the fifteenth of December, 1692, Montague proposed to the Commons that a public debt of one million pounds be created. The bankers thought well of the idea. The land-owning class saw a chance to be relieved from further taxes. It must be said that, compared with modern debt-creation, this proposal was extremely prudent. It carried an honest method for extinguishing the debt. The money was to be raised by selling annuities, which would pay 10 per cent for seven years, and 7 per cent thereafter. New duties on beer and other liquors were to furnish the guaranty fund behind the annuities.

This was the beginning of the public debt of Great Britain. If it be true, as the economists tell us, that such debts are advantageous to a nation, then in 1934 only a lightning calculator could count the blessings of the British. In that year their

debt was seven billion eight hundred twenty-two million pounds sterling.[1]

It was William's need of money that led to the foundation of the Bank of England. This institution, valuable as it proved in after years, was the child of no carefully wrought economic philosophy, but a bold projection of Montague, based on a scheme presented to the government several years before by a Scotsman named Paterson. This man was an itinerant speculator, who passed sometimes as a missionary and at other times as a buccaneer.

The Bank of England was chartered under such conditions and with such purposes as could easily have led to mischief. Indeed, there is no easier route to absolutism, corruption and civil war than to permit government to indulge in the banking business. Sooner or later its fingers will be itching. The "Governor and Company of the Bank of England" was a private corporation, of course; but its immediate and single purpose was to produce twelve hundred thousand pounds to lend to the crown at 8 per cent. What was to prevent the bank from becoming a political agency of the crown, to be used as a reservoir of money which could be tapped at discretion? The good common sense of the English, and their fundamental honesty, rescued the bank from such a fate. It was enacted that the bank could advance no money to the government unless it had been voted by Parliament. Disobedience of this

[1] The economists do, indeed, qualify. Professor Seligman says (and it is a typical statement) that "public credit is not only a natural, but *within bounds* a salutary phenomenon." Within bounds! The same can be said of the flow of rivers, of fire, of volcanic eruptions, of cotton-boll weevil, of the jury system. If the economists wish to retain for their study the affection of men, sooner or later the Delphic attitude will have to be dropped. The oracles have been under suspicion since long before Plutarch wrote his *Moralia*.

rule was to be punished by a fine of three times the sum advanced; and *the king would have no power to remit the penalty.* I dare to say that in the economic history of Great Britain there is no circumstance which so clearly reveals the judgment and talent that have made London the financial center of the world, as that shrewd enactment. The world has been strewn with the wrecks of central banks in the past two centuries, but the Bank of England, though it had its times of stress, has never really faltered.

Now, recrossing the Channel, we shall see how the borrowing policy against which honest Colbert had pleaded, was fruiting. The Great Louis was succeeded by his great-grandson, with the Duke of Orléans as regent.

"The treasury was empty." The economic history of most governments can be written in those four words.

St. Simon, an honest realist, saw nothing but bankruptcy for France in 1715. But, the word bankruptcy being unpleasant to the Duke of Orléans, it was decided to *revise* the promissory notes of the state in the state's favor. But subterfuges were unavailing, and France fell hopefully into the wooing arms of John Law and his Mississippi Bubble. It should be noted, however, that Law began his financial operations in Paris in rather a correct and useful way. His discount bank there could have been as serviceable as the Bank of England. But there was no discreet and courageous parliament to prevent it from becoming a crown cornucopia. The regent and Law decided that the state should become the universal banker. The results of the operations were catastrophic, and debtors and creditors alike had reason to grieve.

"We are still paying all those debts that the late king con-

tracted for extraordinary occasions, fifty millions or more," said Louis XV, sadly, when he began to reign, "and we must begin paying those off first of all. As for me, I can do without any equipage and, if necessary, eat a shoulder of mutton like an army lieutenant." Good little man! The Seven Years' War was just around the corner.

Louis XVI came, and another great finance minister, not so able as Colbert in practise, but a brilliant philosopher of economy and a model of uprightness. Turgot displaced the Abbé Terray as comptroller-general, and had he not been so ambitious and so eager to do good, he might have pondered deeply at the sight of vicious crowds burning his predecessor in effigy. Abbé Terray had told the king: "Sir, I have increased the receipts by sixty millions; I have reduced the debts by twenty millions, and can do no more; it is for you, sir, to relieve your people by reducing expenses."

When Turgot accepted his appointment, he told Louis XVI bluntly: "No bankruptcies. No increase in taxes. No loans. No bankruptcies, either open or sly, or your credit will be gone. No increase in taxes, because your people can stand no more. No loans, because every loan *always diminishes the disposable revenue:* it necessitates, at the end of a certain time, either bankruptcy or increased taxation." Louis promised to support his minister, applauding Turgot's ambition "to ferret out abuses" in his search for the good economy. It did not occur to the king at the moment that the chief "abuse" was Louis XVI and his court.

"It is by trade alone, and by free trade," wrote Turgot, "that the inequality of harvests can be corrected." He meant that in a larger sense than the gathering of one season's grain. Vol-

taire was ecstatic. "I have just read M. Turgot's masterpiece. It reveals new heavens and a new earth." In 1776, on the twelfth of May, Turgot entered the king's closet to speak with him about a new edict. It was perhaps a fault of the great finance minister that he was oracular and long. When he had finished, the king said, "Is that all?" "Yes." "So much the better." A few hours afterward Turgot received his dismissal.

"No bankruptcies, no new taxes, no loans!" Turgot, with his beautiful mind, was either inordinately vain or lacked something of imagination. To tell a king who *can* borrow money, not to borrow money! To tell him, on the contrary, that though he *can* borrow money, he should really retrench his expenses! Well, to be fair to kings, it is true that Turgot might have been successful with a few. Henry VII would have listened to him. Bonaparte, a little later, would not have needed the advice. "I will pay cash or nothing," Napoleon told his first cabinet council. And it is likely that the advice would be just as welcome to kings as to democratic assemblies.

Jacques Necker, who was director-general of finance for Louis just before the Revolution, was more to the liking of spending governments. Necker wanted neither new taxes nor bankruptcies, but during the five years of his ministry he borrowed five hundred million livres.[2] "I quitted office," wrote the faithful, industrious Swiss, "leaving funds secured for a whole year; I quitted it when there was in the royal treasury more ready money than had ever been within the history of man." Yes; but he did not say, what was obvious, that the

[2] The appointment of Necker, whatever else it did, evoked one of the best puns ever made. A caustic nobleman, recalling the prudential edicts of Turgot, said, "I see we have now exchanged Turgomancy for Necromancy!"

money in the royal treasury was *debt,* not wealth. With the best of intentions, the Geneva financier had deluded his master into thinking that he was solvent, when he was really bankrupt. The king's brothers were deeply in debt: but was not the treasury full? Louis XVI bought Rambouillet from the Duke of Penthièvre. It cost fourteen millions: but was not the treasury full? No sooner was the States-General summoned than it was proposed to borrow four hundred and twenty millions. And thus, with a "full treasury," kept full by increasing the public debt, France went whirling down the road to paper money and chaos. A thrifty hardware manufacturer retired from business in 1790 with 321,000 *livres.* In 1796, when the tide of inflation had ebbed, this man had just 14,000 *francs.* It will be clearer, and approximately correct, to say that twenty-nine thirtieths of his savings had disappeared.

This, briefly, is the story of the progress of public debt—unless you like to call it more gracefully "public credit"—in two great nations during the same period. What are we to conclude from these facts, so far as it is possible to make any just conclusions as to the conduct of states, where war, crop famines, dark passions, ambitions, crimes, plagues, and racial differences are only a few of the causes which produce the ultimate effects we view in history?

The early economists such as Hume, who viewed public borrowing as an evil; and the delicate later commentators such as Ruskin, who was touched with more idealism than his robust period could stand, and thought, poor man, in his doting way, that a nation no less than an individual should earn its money before spending it—these philosophers have long since been

jeered out of court. Modern banker-economy is pretty nearly unanimous in declaring that the manipulation of public credit, when "wisely done" and "within certain bounds," is a blessing: that it may even account for the great advance in human comfort and happiness in the past two centuries.[3] It is pointed out, wittily, that at every stage in the growth of public debt, fearful philosophers have predicted that ruin and bankruptcy were at hand. The fatal day was set when William Pitt ran the debt of Britain to a hundred and forty million pounds; again, when the debt reached eight hundred millions in 1815; when it mounted to a billion, men were certain it never could be paid; and yet Britain grew more and more prosperous all the time. The same increase of wealth, coincident with the increase in public debt, has been noted, with great joy, in the United States.

The economists have readily furnished reasons for these benefits deriving from extension of public debt. The existence of

[3] The student must be constantly on his guard against the amazing fallacies offered by economists in their efforts to set up a good case for public borrowing. Consider the following extract from a book by Matsushito, *Economic Effects of Public Debts.* This book is one of the usual trivial productions incident to the granting of a doctorate in our universities, where the Ph.D. is given for ability to "take punishment," as in the marathon race:

"As Nebenius and Dietzel point out, one of the great advantages of a [public] loan is that it takes the money out of the pockets of those who can best dispense with it. For example, a workingman may have $500 in cash in a bank. Yet he may more readily be able to lend it to the government than a manufacturer who has $50,000 invested in a factory. In other words, regardless of the amount of wealth possessed, loans, far more effectively than taxation, collect the money which is least indispensable to the people for the time being, because loans are voluntary while taxation is compulsory."

This is incredibly naïve! It assumes that when the "workingman" lends $500 to the bank, the bank straightway places it in the vaults in the form of currency, and keeps it in currency until the workingman calls for it. In other words, it assumes that "deposits" are really deposits, which of course they are not. Did it not occur to the gentleman that the bank may have lent the workingman's $500 to some manufacturer, so that when the workingman withdraws it to lend it to the government, the capital available for industry is just so much short?

such a burden forces men to work harder than they otherwise would, in order to keep up with their payments. This tends to develop new resources of wealth, commands inventions and ingenuities, keeps everything brisk. The public promises-to-pay, being in the form of bonds and notes, supply a new kind of money upon which commerce can be based. They form the background of increased private debt; and modern business thrives by debt, not thrift; though the debt (I hope there is no harm in saying) derives from some thrift at some time. If it were not for the field of investment in public funds, all money-lenders would be forced into investment in projects, commodities and land—and there are not enough of these to go around. These are a few of the blessings supposed to arise from the creation of public debts.

On the other hand, it will be observed that those who so cherish public borrowing as a stimulus to the production of wealth, nearly always draw all their conclusions from the experience of two nations—Great Britain and the United States of America. In respect of this phenomenon, therefore, the "conclusions of political economy" really means the political economy of what are loosely called the Anglo-Saxon nations. Adam Smith, in writing *The Wealth of Nations,* was definitely thinking of one nation in particular, and that his own. And it explains why the citizens of less favored nations find the "principles" of political economy, as offered in English textbooks, quite romantic and astonishing.

Now, in choosing Great Britain and the United States as the exemplars of the benefits of the employment of public credit, the choice has been made of the two nations which have

progressed fastest and farthest in the past two centuries. When Montague proposed public borrowing in the time of William and Mary, and when Colbert was advising against the use of national credit in France, the British people were on their way up, and the French people were on their way down, for a hundred reasons that had nothing whatever to do with the means of pledging public revenues. The great industrial and trading age had arrived; and the people whose native genius was best adapted to the new order, were the British. Had they been swamped with many times the burden of debt they endured, they would perhaps have come through—and as honestly as they could—because it is part of the genius of that people to have a lively appreciation of the practical value of probity; and the "practise" of honesty ends by producing a *moral* position.

There is one point, however, that is seldom mentioned. The British public debt cost that nation the American colonies. It was not tyrannical disposition, nor hardness of heart, that brought on the American Revolution: it was the natural, though fatal, desire of Britain to pass part of the debt-service burden on to the colonials; and the equally natural refusal of the outlanders to support a burden which they had not willingly assumed.[4]

The case of the United States is a marvel in colonization and development which has no parallel in the world's history. Nowhere was there ever such a body of land to be exploited; never anywhere an immigration with such a genius for tapping those hidden riches. So rapid was the production of wealth, even with temporary setbacks due to war or specula-

[4] George Grenville's deliberate statement in Parliament.

tion-madness, that the United States could, during most of its life, have borne a much larger public debt that it did, had it been necessary. The relative ease with which taxes could be increased and collected, and the revenues from the ports, tended in all normal periods to keep down borrowing.

The public borrowing of all other nations tells a different story. "During the nineteenth century," says Professor Seligman, "no country except the United States, which was in a fortunate position after the Civil War, has made a successful endeavor to *sink* its public debts." If we go beyond Great Britain and the United States, neither of which, *as a nation,* has ever defaulted its public debts in any important sense,[5] we cruise into a turbulent ocean of defaults, repudiations, litigations, compositions, refundings, forced settlements, swindles, inflations and political jobbery, that sickens the soul. Not that some other nations have been without their periods of perfect rectitude and sound financing. But the trusting creditors, everywhere else, at one time or another, by one means or another, have been caught, thrown and sheared.

From a study of the inception and course of public debt in France and England, and the subsequent history of public debt, three conclusions are inescapable:

1. That a nation may thrive in spite of, but not because of, the existence of a public debt.

2. That the opinion of the incurrers of a public debt, as to the burden which the nation can bear, is of no value whatever. The ability to sustain such a debt depends upon circum-

[5] Alas! it is becoming dangerous to make such broad statements. Britain dallies with "a realistic attitude" toward her debt to the United States, and the United States contemplates some ultimate payment of its creditors with a devalued dollar.

stances which the incurrers can neither control nor foreknow.

3. The incurrence of a public debt, if not imposed by truly defensive war, is the result of political opportunism, not financial statesmanship. It is therefore the policy of weakness, not of strength.

XIV

GOVERNMENT AS DEBTOR

> It is well known that one third of what is given for Publick Use, is wasted in extraordinary Interest, and exorbitant rewards for advance of money.
>
> EDWARD LEIGH, 1715

THERE may be those who have marveled that the virtues of frugality and thrift, so much esteemed in the husbandry of the individual, should not be projected into the administration of a nation and of the lesser units of government.[1] It may be fairly asked, whether a government which must always encounter an emergency with an empty chest, or worse than that, with a sheaf of promissory notes representing all that remains of its harvest-time, is not in the same case with the despised farmer who enters upon the winter with empty pork barrel and potato bin?

The great respect sometimes expressed by men for the provision of the bees must be merely a rhetorical flourish, for it is not thinkable that the hive should discover, at the end of the season of nectar, that it must resort to borrowing: and borrowing, moreover, from those to whom it was already in debt. We must admit, of course, that men are not bees; but this acknowledgment should not be construed to the disadvantage of the insects.

[1] It is true, the estimation of these virtues in the individual has currently fallen under eclipse, but we may be sure that this is a temporary whim. For, a nation lacking saving individuals would have no surplus; without a surplus there would be no creditors; without creditors there would be nobody for government and private debtors to plunder. In order for *anyone* to be prodigal, *someone* must be thrifty.

Now, the opposite of a public debt would be a public store: a thesaurus, or treasury. In the economy of a nation or lesser unit of government, this store would represent a prudential reserve comparable to the savings-bank deposits of a workman, or the well-stocked cellar and larder of a husbandman. At present, is it not droll that we should give the name of National Treasury or Exchequer to that which is merely a repository of debt memoranda; in which the actual money, flowing in and out, is encumbered in advance of its collection from the people in the form of taxes; in which a "balanced budget" is a triumph of skill—the "balanced budget" (celebrated with cries of admiration) being merely the indication of a bankruptcy narrowly averted or again deferred? If *that* be a Treasury, then the farmer who suspends a promissory note in his meat firkin may be said to have created a store.

I shall presently discuss some of the reasons given by economists, and by politicians, why a government should possess a public debt instead of a public store: and some of these reasons may be found good, and some not so good. The danger, however, which principally derives from the maintenance of public debt, is that the mind of the people is constantly and sometimes deliberately confused as to what their public debt really is: so that it is commonly thought that a public debt is actually a public store. If you were to credit the mere arithmetic of any modern government's finance minister, you might believe that there was actually a sum of money, free from claim, lying in the national strong-box. The truth is that every modern state is penniless, and worse; and the day's balance which appears is merely the amount of money which awaits disbursal to its dependents and creditors while the tax-

gathering agencies are afield, feverishly active. And it is naturally difficult for the uninitiated to realize, that though a government may print as much token money as it pleases, the money is always a *liability* of the government; always a debt.

Indeed, the terms "Chancellor of the Exchequer" and "Secretary of the Treasury" have become misleading. If each nation were to have an officer frankly called "Secretary for Debt," and if we could get enough people to stop their equivocating gossip about *public credit* when they mean *public debt,* it would be far easier for the citizen to appraise his government's position in the world of finance.

Primarily, public debt is a device intended to beguile the taxpayer into thinking that he is getting something for nothing.

In ancient times it was not considered paltry to collect and maintain ample reserves of coin and other treasure against the time of lean kine, or the possibility of war, pestilence, or other emergency. The little republic of Athens and its allies, in a period of fifty years between the Median wars and the Peloponnesian struggle, managed to accumulate a sum not much inferior to that extraordinary thrift of the English monarch Henry VII: say, the equivalent of two millions sterling of Henry's period, which was effectively far greater than the idea today conveyed by that sum. At one time the Athenians had in their citadel more than ten thousand talents of silver; and what is more significant, they did not tap the resources until forced by the necessity of war. As private Athenian fortunes had increased in no such proportion, it is no wonder that Hume was moved to remark: "What an ambitious and high-

spirited people was this, to collect and keep in their treasury a sum which it was every day in the power of the citizens, by a single vote, to distribute among themselves!"

The fat treasuries of the Macedonians, of Pergamum, of the Ptolemies, of the Lacedæmonians, and of the ancient republics of Gaul, were noted by commentators like Plato, Pliny, Appian, Strabo. Raping the chests of treasure accumulated by Philip and Alexander, the consul Æmilius Paulus was able to bring home to Rome not less than ten million dollars—much more than that, according to Pliny—which was certainly only a part of the Macedonian hoard.

Some of the wisest emperors of Rome—Augustus, Tiberius, Vespasian, Severus—did not consider it contemptible to lay by against the rainy day. "The power of the Roman exchequer," says Mommsen, "to execute great operations by means of payments in pure cash without making use of credit, is clearly shown by the way the Marcian aqueduct was created; the sum required, 180,000,000 sesterces, being raised and applied in three years." In view of this great public work, financed on a cash basis, it seems idle to argue that public borrowing is inevitably necessary in order to produce expensive but lasting benefits to a state. Indeed, there are at the present moment numerous instances of local thrift and foresight, on a smaller scale quite like the Roman provision just noted.[2]

Further, a productive, industrious and frugal modern state

[2] For example, the people of Prowers County, Colorado, by foreseeing and providing for a new courthouse, were able to place full payment in the hands of the contractor when the construction was finished. Several of the American states have no net public debt, and one of them, Nebraska, seems to have financed its costly new Capitol building on a cash basis. So that, since many other instances of the same disposition could be given, it is clear that the creation of public debt, except in war, resolves itself into the question of the *will* of the governors, or that of the electorate. It is thus not *necessity*, but policy, which still dictates.

could no doubt become a lender rather than a borrower, if it chose; though whether this would be advisable, further than to employ moderate cash balances, is another question. It would seem better to dissipate part of the surplus by reducing taxation. In 1714 the Swiss canton of Berne appears to have had a million and a half dollars lent at interest, and six times as much lying in its treasury. Whether the unit of government should be lender or borrower is most likely to depend, as it does in the case of the individual, on the exercise of restraint—plus administrative integrity. The individual who burns to possess everything he sees, and everything he hears that others possess, will naturally be a debtor to exactly the extent that he can discover creditors: and this is as true of government.

If we candidly examine the records of both absolute and constitutional monarchies, of tyrannies and dictatorships, of republics and democracies, the outstanding fact is that whatever the methods of incurring debt (of "employing public credit," as it is politer to say), the economic results are pretty much the same. Whether the debt is to be charged against the crown, or whether voted to the crown by a free parliament, or whether voted to its own use by a congress of directly representative politicians, the debt must be serviced and finally extinguished, if ever extinguished, by taxes laid upon the production of the industrious and thrifty of the nation. It is sometimes said that these taxes will unfailingly come back at last upon the land; and this is probably true, if it is meant that the *product* of the earth and sea, the result of labor exerted upon them, must bear the brunt of all imposts, even the least direct. So that when John Ruskin said that "public indebted-

ness always ends by taking the peasant by the throat; he must pay, for only *he* can," he was indulging in one of his benevolent tirades, but he was near the plain truth. "Food can only be got out of the ground," he continued, "and all these devices of soldiership, and law, and arithmetic, are but ways of getting down at last to him, the furrow-driver, and snatching the roots from him as he digs." It is not obvious to the furrow-driver himself, who in modern times is as eager as anyone else to have the government borrow money, that he is the principal victim of usury and crammed credit. The complexities of commerce and communications provide many operations between the laying of a tax and its definite, irrevocable and inescapable assessment.

The story of "public borrowing" through the centuries can be sufficiently made clear by reviewing briefly the experience in the British Kingdom. Here, since the Norman Conquest, we find three kinds of monarchies which will, in a general way, typify the major concepts of government. Before Magna Carta, which secured to the people a parliament that was very far from being an instrument of popular will, but was still a check upon the crown, the kings had power enough to contract debts, but found it much more difficult to take advantage of that power than the legally curbed monarchs after Runnymede. The feudal system, with its insecurity and constant clash of petty divisions, was not calculated to invite credit. William the Conqueror died possessed of a relatively small sum, when the extent of his warlike operations is considered. He left five thousand pounds sterling to his youngest son Henry, and that sum was no doubt regarded as a handsome legacy. Henry I,

besides plate and jewels, left one hundred thousand pounds by testament.

The second Henry was evidently a thrifty monarch, if not a scrupulous one. The religious houses being in want and reduced to borrowing, Henry supplied them with funds—at a price—and there remained in the treasury at his death more than £900,000. The lion-hearted Richard did not suffer much of this to remain in the chest. The project of redeeming the seat of the Eastern Church from the infidels was such a passion with him that, after having permitted the slaughter of the Jews of his realm, whose property by some felicitous accident managed to filter at last into the royal coffers, he dinned his pious needs into the ears of all classes of subjects, and obtained both gifts and loans; though which were gifts and which were loans, the unlucky lieges never discovered.

The career of Henry III, as debtor, was colorful. "Having exhausted the resources of his country," as a contemporary said, Henry contracted debts in France. To manage these debts, he borrowed from the Earl of Cornwall, and being required to furnish security, the happy idea came to the King that he would mortgage all the Jews of his kingdom. Incredible as it may seem at this day, this was done and sealed. The Earl thus came into power of distraint upon the bodies of all the Jews in England in case of the default of the regal borrower. To administer the pledged property, there was a special court, the "Exchequer of the Jews," which remained in force until 1290, when the expulsion from the kingdom took place. In 1255 this prince owed 300,000 marks, of which 135,000 were borrowed from the Pope at an excessive interest, a quaint fact

in view of the teachings of the Catholic Church concerning the sin of taking any interest whatever.

Henry IV seems to have shown an unusual sense of honor, at least on his deathbed. His will directed "that all those that in any wise be bound in any debt that I owe in any wise, or have undertaken to any man for any debt that I owe, or that they can duly show it, that all such persons be kept harmless." Winnowed from this barbarous lawyer verbiage, what Henry meant was that if any man had gone bail for him, such a man was not to be a loser. Henry also ordered all arrears of fees and wages to be paid up; and this was no negligible thoughtfulness, for the payroll of the crown in those days was irregular: the ghost walked with a limp.

Beginning with Richard II, we begin to discern a stirring of rebellious spirit on the part, not only of the barons, but of the merchant class. Parliament refused to grant Henry III a supply bill for the discharge of the debt to the Pope of Rome; in the fourth year of Richard II the commons requested the king to pay the debts of his grandfather, so that his subjects would have more faith in him, in case of further need; in 1392 the citizens of London flatly refused to lend the king one thousand pounds! But not until the time of Henry VI does there seem to have been a debt contracted upon parliamentary security, and this was for the purpose of redeeming the crown jewels and the crown itself, mortgaged in the previous reign.

The seventh Henry, whose ability seems to have fully deserved the encomiums of Francis Bacon, was the first English king with a business head, in the modern sense. He was not only a borrower but a lender, and obviously managed to make both operations profitable. On the one hand, he took in pawn

the most gorgeous jewel then known, when the dukes of Burgundy needed money in the interest of the future Charles V. His maxim was: "Borrow too soon rather than too late," but his subjects were willing lenders, for the return was punctual. Henry VII left a huge fortune in *specie.*

The expert in wedlock who followed to the throne was neither punctual nor honest. In 1522 Henry VIII required "a general loan of 10 per cent on all property in the kingdom worth above twenty pounds." The principal of this loan was paid, but no interest; Parliament, seven years afterward, "relieved" the monarch of his burden. The merchants of Antwerp, notorious pawnbrokers to royalty, became alarmed at the care-free financial methods of Henry, and made the modest request that the City of London be put up as collateral for their money. In the thirty-fifth year of Henry there was not only a bankruptcy, but those who had already been paid were required to refund the money!

In 1558 the London merchants lent twenty thousand pounds to Queen Mary, at 12 per cent interest, and this at a time when the taking of interest was prohibited.

Elizabeth borrowed £200,000 in Antwerp in 1559, and further sums later of the merchants of Cologne and Hamburg, on her own security, backed by the City of London, that reliable fidejussor.[3] Elizabeth's conscience concerning money was most elastic. During her reign a ship was driven into Portsmouth by foul weather. On board were 400,000 crowns intended by the Genoese bankers for Philip's army in the Netherlands. The virgin queen seized the treasure, blandly

[3] The maxim of Thales was: "Suretyship is the precursor of ruin." In the Middle Ages a citizen of London was arrested in an Italian city because the City of London had "guaranteed" the English king's debt to a local banker.

remarking that she would graciously consent to receive it as a loan from the Italians, as she was temporarily embarrassed for funds. I have no record of Philip's remarks when he learned of the transaction.

With the accession of James I, we begin to see Parliament in a seriously inquiring mood concerning the use of public credit. James at first did a roaring business in selling titles for what they would bring; but the novelty soon wore off that, and he resorted to begging. Even mendicancy proved unprofitable, a much-publicized gift to the beloved ruler resulting in only £52,909. Now the Commons took a hand, appointed eight citizens of London as treasurers, and enacted that no further cash should be raised without a warrant from the war council, with a proper accounting to Parliament.

Charles I, at the very outset of his stubborn struggle with the growing popular independence, resorted to forced loans, of which neither principal nor interest was paid. Charles conducted an expensive court. Sir Paul Pindar was a creditor of the king for £130,000, and Sir William Courten for £27,000, while the Duke of Buckingham was hawking the crown jewels through Europe, and the crown lands were being mortgaged to the London merchants. Charles made the last gesture of regal absolutism when he seized £200,000 from the mint.

The Protectorate was frugal; but with the return of the Stuarts the struggle between the crown and Parliament, as to the use of public credit, was renewed. Sometimes the legislature was harsh, sometimes relenting. Charles II paid 8, 10, and 12 per cent for his money. In the thirteenth year of Charles, Parliament stiffened its neck and declared that no more money should be borrowed without its consent; but it soon weakened

again. With the flight of the frantic James II a new era in national financing began. James left behind him, when he made his permanent visit to Louis, across the Channel, a debt of more than a million pounds. The army was grumbling for arrears of three hundred thousand pounds. In November, 1688, only eighty thousand pounds lay in the treasury, and this was bespoke.

Up to this moment in English history, it may be said with some truth that there was no "national" debt. Either in fact or as a legal fiction, the debts were supposed to be directly due from the crown. I have tried to point out that, in reality, the net effect upon those who produce the taxes is precisely the same whether the debts emerge from prerogative or from supply bills. But with the accession of William and Mary, at least the bookkeeping took another form. Now we see a definite plan of mortgaging the resources of "posterity" installed as a coherent financial system.

Europe was aflame with war, and the Prince of Orange, installed upon the British throne, needed first of all, money. William, utterly honest, industrious, decent, and the most astute politician of his time, soon met the question as to how the sick treasury should be medicated. Some of his ministers were for raising all money by taxes. William said no: *"A new government like mine can be effectually secured by making private fortunes of great numbers depend upon the preservation of that government: and the way to do this is to borrow, letting the lenders accept the security of the present establishment."* No words could more plainly show the alertness of William's mind and disclose the results of its training in the intrigues of Continental Europe. It is true that William, who had not a

merchant mind, did not perceive the commercial possibilities of a public debt. He took the political view. But if you unite the two aspects—the interest of the lender to receive regular profit from money at the hands of a stable government and the interest of the borrower to win the support of the lender toward the ruling power—joined with the commercial advantage of supplying to trade a new implement of exchange and credit which would be profitable either to hold or to use—you possess the whole theory upon which a perpetual public debt rests.

It is curious, moreover, that the Prince of Orange, a stranger in a strange land, hardly yet aware of who were his friends and who his enemies, had the wisdom to adopt the very policy of Eumenes, the Cardian, that wily private secretary to Philip and Alexander of Macedon. "Knowing that his enemies sought to kill him, Eumenes pretended to be in want of money, and borrowed many talents, especially of those who most hated him, to make them at once confide in him, and forbear violence for fear of losing their money. By borrowing money, thus, he purchased safety, for which it is more common to give it." So tells Plutarch.

The time was ripe, and the ground admirably fitted, for this experiment in the employment of public credit. Britain was moving rapidly toward her position as the chief trading nation of the world. Already her merchants were seeking exploitation in foreign lands. An eager commercial class, which had achieved its first success in casting off the restraints of the ancient usury prejudice, was about to make the second great venture of commercialism—that of keeping specie in the strong-box, and using paper promises and depots of balance. Double-entry bookkeeping had come into the world; the Bank

of St. George had withstood successfully the initial shocks of a novel financial enterprise; and London men began to wonder if, after all, it might not be safe to take their money from their hiding-places, and entrust it to changers and brokers who would make it earn.[4]

The increase in commerce was putting a strain upon the physical bulk of coin, which, moreover, was not above suspicion on its edges. Investments in land were already recognized as frosty to capital, and investment in movables and commodities had its limits. Why not lend to the government upon an attractive annuity, and then see to it that the government was strong enough to insure repayment of principal, with a profitable service charge?

No doubt at first the theory of a public debt was that it could reasonably be incurred in time of war and extinguished in time of peace. This notion was stoutly held, even by those who deplored the pledging of futurity, down to a very late time.[5] Indeed, there are still some old-fashioned minds of that persuasion; and it will be recalled that Andrew Mellon, Secre-

[4] There were recalcitrants. One of these was Sir Dudley North, a London merchant, who spent many years on the Continent and returned to his native town to find men making payments in bills drawn on bankers. The innovation displeased Sir Dudley, who was further annoyed by being pursued by goldsmiths who wanted his account. He lost his temper when asked by a friend where he kept his money, replying, "Where should I keep it, but in my own house?" But he was at last prevailed upon, and put fifty pounds with a banker. The banker broke a few weeks afterward. Sir Dudley's skepticism was not allayed by this accident.

[5] "A national debt, like any other, may be honestly incurred in time of need, and honestly paid in due time. But if a man should be ashamed to borrow, much more should a people: and if a father holds it his honor to provide for his children, and would be ashamed to borrow from them, and leave with his blessing, his note of hand, for his grandchildren to pay, much more should a nation be ashamed to borrow, in any case, or in any manner; and if it borrow at all, it is at least in honor bound to borrow from living men, and not indebt itself to its own unborn brats. If it can't provide for them, at least let it not send their cradles to the pawnbroker and pick the pockets of their first breeches."—RUSKIN, *Fors Clavigera,* Letter LVIII.

tary of the Treasury of the United States under Coolidge, reduced the national debt by eight or nine billions of dollars from the high point of war-time lending and spending.[6] A characteristic viewpoint of the early nineteenth-century statesman may be quoted. The words are those of President Van Buren in his third annual message to Congress:

"In times of peace there can . . . be no justification for the creation of a permanent debt. . . . To this end [of keeping the Federal Government always in condition to discharge its highest functions] it is indispensable that its finances should be untrammeled and unencumbered."

Of a more austere mind was Robert Hamilton, of Aberdeen, who insisted that wars should be fought on taxes alone; and many others were of the same opinion. They took the view that the passionate love of country would, in stress, "reconcile the community to privations," whereas the end of a war, with its relaxation of ardor, might find the same people gloomy and rebellious in the face of a burden of debt." David Hume was convinced, when the British debt had reached a mere trifle as compared with its present size, that bankruptcy must ensue "at a very near period, such as half a century"; but, having said this, he recollected that his father, viewing a smaller debt, had said the same thing. It is humorously true that there has never been a single generation in Great Britain, since William's reign, that did not produce its prediction of an impending insolvency and repudiation of the "colossal public debt." That debt has now reached (1936) more than seven and a half billions of pounds. The country is still a going concern; but the burden

[6] And for this he was blamed by those who consider a great public debt a blessing! It was said by some that he brought on the depression by paying off the debt too fast.

is becoming embarrassing, and those who believe that it can ever be extinguished must rest their faith upon the belief that there lies in the future a far greater prosperity, based upon a far greater productive effort, than has yet been seen.

Now, the public debt of a nation is either intended ultimately to be paid off, or it is not. If it is intended to be extinguished, it is characterized by promises that have a definite maturity, and by the creation of a sinking fund of amortization. If it is not so intended, and the borrowing was not merely a premeditated swindle upon the creditors, it may take the form of a perpetual loan, callable in theory, but upon which nobody is likely to propose any payment other than that necessary to bear the service charges.

As a theory, the sinking fund is reassuring, and, according to some minds, businesslike. It is soothing to the creditor, and should be equally so to the taxpayers, especially to those taxpayers who have, with some imagination, watched the performance of a squirrel in a revolving cage. The sinking fund is, at bottom, an earnest that there exists in the mind of the borrower the will to be free of the debt.

But in practise the sinking fund is in the hands of politicians, just as is the borrowing power in a modern state; and thus we are likely to find that a public debt is like a cork: easier to float than to sink. "It is very tempting to a minister," said Hume, "to employ such an expedient as enables him to make a great figure during his administration, without overburdening the people with taxes or exciting any immediate clamors against himself. The practise of contracting debt will almost infallibly be abused." And furthermore, "Money is perhaps lying in the exchequer, ready for discharging the quarterly in-

terest: necessity calls, fear urges, reason exhorts, compassion alone exclaims: the money will immediately be seized for the current service, under the most solemn protestations of being immediately replaced."

Tampering with the sinking fund, in truth, began almost simultaneously with the initiation of that device. Dr. Davenant, in the time of William, warned the people of the danger which would attend breaking into appropriated funds. "He was disregarded," notes Richard Price,[7] "and the public debts increased so much as to be thought in 1716 insupportable. This gave occasion to the establishment of sinking funds which repeated laws declared should be applied to the payment of public debts, and *to no other purpose whatever.*" But the laws were disregarded.

So we see Sir Robert Walpole, in 1733, when faced with the necessity of borrowing, taxing, or filching from the sinking fund, choosing the latter course. "The landed interest wanted ease," he explained, and really there was no hurry to pay the debt. In 1734 £1,200,000 was deftly removed from that fund which was to extinguish the burden on production. And then? Why, this operation having proved so facile, the following year the sinking fund was even anticipated and mortgaged.[8]

When a government diverts to other uses a sinking fund which has been put aside for the extinguishment of its public

[7] It may interest the reader to know that this Dr. Price, a man of strong and not always correct opinions, was esteemed so highly by Benjamin Franklin as to be invited to become a sort of economist and financial adviser to the budding American commonwealth. But the doctor would not leave England.

[8] It is necessary to say that, in our government financing of the moment, it would not be necessary to disturb the sinking fund even if there should be any. Government now keeps two sets of books: one represents budgetary debt, and the other represents extraordinary debt. The uneasy taxpayer looks askance and asks what is the difference. Later on, whilst he is paying both debts, if he does pay either or both, he will not have the leisure to enjoy the nice distinction.

debt, it does precisely what an individual does when he purchases an automobile with money designed to amortize the mortgage on his house. In both cases the pretext is the same: that greater prosperity is just around the corner; and in both cases it may constitute the first step toward bilking the creditor or laying the foundation for the loss of property or honor.

It has been argued that the existence of a public store would lead governments toward unwise enterprises and war; and that the maintenance of a frugal surplus would simply invite, on the part of the more evil politicians, waste and theft; whereas the existence of a public debt, upon which interest must be paid, is a check upon rash adventures, as well as upon the raids of political looters. I find it difficult to discover any historical basis for such reasoning.[9] There was not, in 1914, a single country in the western world which did not have a burdensome national debt. A few years before the war, some sanguine person wrote a book indicating that another great war was impossible because the nations could not afford it. The gloomy testimony of history suggests the contrary. That nation which ardently wishes to go to war, but ultimately restrains itself for want of funds, may sometime exist, but it has not yet made its appearance.

As for political wasters and pillagers, it is difficult to see why their operations are any less successful because a country has in its exchequer *borrowed* money rather than unencum-

[9] The common experience of the individual debtor is exactly contrary to such a theory. Consider how often the purchaser of an automobile, though he has money in the savings bank, will prefer to borrow from a finance company and pay from 13 to 15 per cent for the money, rather than disturb what he calls his "nest-egg." It is when money is easy to borrow that men rush into wild enterprises. When they must rely upon their hoard, especially if it be hard money, they finger the coins and think twice or thrice.

bered funds. The source of money is not a matter that excites the unscrupulous or the prodigal: the question is simply: how to lay hands on it. I doubt that any method of avoiding squandering and larceny will prove effective in a nation, except the artless one of electing no spendthrifts or thieves to office. This may prove efficacious if it should ever be tried.

That a public debt, in the form of bonds or notes, is a convenient medium for the investment of surpluses, there is no doubt. Not only do these form an additional basis of credit, and to some extent a circulating medium, but until some fatal time when they may flow into the bank portfolios in such quantities that they convert these institutions into mere pipe lines of government debt, they are undoubtedly the best of all investmens for the wealthy class, which wishes a usury income with the least possible risk. In a country where interest rates are customarily low, like France, the word *rentier* arose to announce this fact; and this is true today, despite the bitter experiences of the French with revaluations and repudiations. In a more reckless or a younger country, the normally low interest return of "governments" will tend to divert the wealthy into more speculative holdings: but then public notes will still be the backlog of their investment, since they will be largely held by the corporations whose debts the investor holds.

It was once said that the social and political effect of the creation of a *rentier* class was unfortunate, since it resulted in a part of the population becoming remittance-people, rovers, losing their attachment for and keen interest in the homeland. This seems rather sentimental; what is infinitely more important, it seems to me, is that it supplies another sharp dividing line between the "capitalist" and those who believe

themselves capital-less, and so accentuates the struggle that goes on forever, now diminished, now mounting, for the redistribution of wealth.

When the government becomes debtor, it must be the less able properly to govern. The conflict between the interests of creditor and debtor is eternal. It mirrors the very nature and essence of debt. But, unlike the individual debtor, who is under pressure only from his creditor, the government as debtor is continually pressed both by creditors and debtors. In the whole gamut of government debt from the profit on issuance and trading in its notes, the gains based upon them as security, and the advantages of mere possession, down to the constant rebellion of the taxpayer at the mounting charges of servicing—from beginning to end, government is exposed to the political exertions of both debtor and creditor class, whose interests may at times seem to be identical, but in the long run can never be so. In such a position, how can government, itself a debtor, be unprejudiced? It cannot, and it is not. In normal times the creditor class will be patronized, for reasons both adroit and reasonable: but when the prosperity and credit of the state is so shaken that government must choose between the legal claims of the creditor class and the surly clamors of the debtor class, its course is indicated: *it is itself a debtor,* and will profit, as government, from any lifting of the debt burden.

"The public is a debtor," said Hume, "whom no man can oblige to pay. The only check which the creditors have upon her, is the interest of preserving credit; *an interest which may easily be overbalanced by a great debt.*" How great a debt? Nobody can say. But those who blithely point out the ability

of government to bear a greater debt because it already bears a great debt, would do well to ponder Hume's statement. The assumption that a government debt can be constantly extended, implies a belief in constant growth of wealth to infinity. In other words, so far as we know nature, it is based on a transparent fallacy.

XV

GOVERNMENT AS CREDITOR

> National debt is immoral and destructive, silently undermining the basis of the state; it delivers the present generation to the execration of posterity.
>
> NAPOLEON

SMALL states are likely to be unstable and reckless as borrowers; and the greater states, under the influence of politicians who wish to make a great display without immediate taxation, become imprudent and vexing debtors in vast and inextinguishable sums; but when a government assumes the rôle of *creditor,* a new and perhaps greater danger arises. If the creditor of a small nation happens to be a great nation, the inferior government immediately passes *sub juga.* No pretense of autonomy can then conceal its control by the creditor state except the interference of another powerful country, which may declare a protective orbit. And this may occur not only when the great state is creditor, but also when the money has been advanced by the citizens and commercial institutions of the creditor country, and they are strong enough to influence the foreign political policy of crown or parliament.

Sometimes the loan of money or goods by one state to another is accompanied by mealy-mouthed sentiments of piety and idealism on both sides, but any motive except that of advantage soon evaporates, leaving the bald debtor-creditor position manifest. The advantage seen on the side of the creditor

may be profit from the loan itself, open or hidden trade agreements, cultivation of political good-will, detachment of the debtor state from a rival sphere of influence, or concessions to be worked by the nationals of the creditor. On the debtor side the money may be used to promote development of natural resources, for refunding of previous loans, stabilizing of weak exchange, preparation for or prosecution of war; and sometimes for the pocket-benefit of the borrowing country's leading men. This last is not unusual. In Latin-American countries it is commonly known as *negocio;* in North America it is called graft.

When a nation borrows from the individuals of another nation, it is usually in the form either of a bank loan or the flotation of an issue of bonds. Presumably neither one nor the other can be sold without the tacit concurrence of the lender's government; so such loans, though not guaranteed by such a permission, are distributed to the capitalist public with the inference that they are sound. This is pure illusion. These loans are probably the least secure, taken as a whole, of any in the entire field of debt. If the borrowing state defaults or repudiates, the individual holder of exterior promises is luckless. So, too, is even the largest bank, for there are only two ways to get the money back: either to take forcible possession of the defaulting country and operate it for the benefit of the creditors; or to distrain the persons or property of the citizens of the debtor country when they can be found within the confines of the creditor nation. In theory both of these can be done; in practise neither is often done, for excellent reasons. One means a war, and the modern human balks at such an

extreme measure for debt collection; the other means gross injustice and endless litigation and difficulty.[1]

The resort in such a case is to an organization like the Corporation of Foreign Bondholders in England, where such an institution exists. If there is no such agency operating with a mild display of government cooperation, alert projectors form a bondholders' committee to deal with a special issue, and charge the unfortunate creditor a fee for representing him. In most cases this will be throwing good money after bad,[2] for a defaulting country will as cheerfully swindle a bondholders' committee as an individual: indeed, sooner, for a rebellious and hurt spirit is loosed by any concerted attempt to collect the money. "If you had let me alone, I would probably have paid," says the defaulter, with an injured air, "but now that you are trying to badger me, you won't get it." There is no sensibility so delicate and easily wounded as that of a person or a nation that knows it is in the wrong.

Of course, a great nation which assumes a hegemony in one of the international spheres of influence may be prevailed upon to *compel* a smaller neighbor nation to meet it obligations to a nation or its citizens in another sphere. This it does to obviate encroachment on its preserves. So the United States has at times occupied with armed forces some of the countries south of it, managed the customs, supervised the elections, certified the accounts, and otherwise acted as special

[1] The Hague convention of 1907 forbids the use of arms for the recovery of a public debt, unless the debtor country refuses to arbitrate or fails to fulfil the terms of arbitration. But conventions are the glassware of diplomacy.

[2] But where the bondholders' committee has a charter and even a fraction of delegated authority from its government, it can be a great boon to the creditor, as in the case of the London Corporation or the Association des Porteurs Français de Valeurs Etrangères.

policeman and bailiff. As this is an invasion of sovereignty, and as sovereignty ceases to exist when the invasion is not repelled, the independence of those nations came to an end, at least for the period of tutelage.

However, when Germany, with the assistance of both Great Britain and Italy, tried a similar procedure in Venezuela in 1902, the United States interfered in behalf of its "doctrine" of Western Hemisphere solidarity. Some years before that event, Venezuela had borrowed $10,000,000 from a German bank. When the Venezuelan government lapsed its service on the loan, the bank appealed to its government. As this kind of case was not uncommon in Latin America, and the patience of the European creditors was wearing out, Germany decided to make a test. Great Britain and Italy also had unpaid claims in the same country, so a "pacific blockade" was decided upon: the first peaceful move being to sink three of the debtor's warships off the Venezuelan coast, and the second waving of the olive-branch being the bombardment of Puerto Cabello. President Theodore Roosevelt insisted upon arbitration, and threatened to send a powerful squadron of warships to carry on a pacific blockade of the pacific blockaders, and a serious war was averted only by the good sense of the Europeans in withdrawing from the scene. Such a war could have been only a major disaster for both the United States and the allied creditors: yet this danger is always present where there is such a combination of circumstances as: a great creditor nation, a small debtor nation, and a nearby large nation jealous for its sphere of influence.

It is clear, then, that the external debts of a nation, though

they seem to have only economic significance, are political detonators.

A classic example of a nation entirely losing its sovereignty because of its debts and its inability to foment a war of power-balance to protect itself, is that of Egypt. This nation, having contracted great debts to England and France, and being unable or unwilling to pay, was administered for many years by the creditor and for the creditors. Whether Egypt benefited by the occupation is another matter; many backward countries have received real and lasting improvement from Britain's wise and usually just administrative policies; but the point is, Egypt lost its independence.

For the same reason and in much the same way, Turkey was humiliated in 1881. The Turk's reputation as a debtor was notorious for many years, and it seems strange that loan after loan should have been risked in that country: but money is hungry for increase! After the formal bankruptcy of Turkey a board of management was set up, administering the salt monopoly, the stamp duties, fishing rights and alcohol excise; paying the interest on the debt out of the proceeds. In 1898 Greece similarly passed under the spear, and lost its right to manage its own affairs. Certain Chinese ports, and the customs thereof, have been managed for the benefit of foreign creditors so long that the Chinese by this time would probably be surprised and lonely if they should be liberated.

A notable instance of the manner in which the creditor position may be interwoven with adroit conquest, is that of the Japanese nation's relations with the *soi-disant* independent state of Manchukuo. This adventure is a step in Japan's program toward empire, and has supplied a farcical exposition of the

impotence of any League of Nations or similar center of loquacity. Briefly, the Japanese, teeming with population and forces of production, alert and ingenious, and awakening late in the history of empire-making, have decided that what was proper for preceding empires is also proper for them. They demur, and naturally enough, at the suggestion that the rules of the game have changed. They wish to be informed why the rules should happen to undergo revision just at the moment when they, the Japanese, are competent to take a dominant position in the world. They point, with telling sarcasm, at the manner in which the United States instigated a civil war in the republic of Colombia for the avowed purpose of breaking away that part of the country which held the land necessary for a canal through the Isthmus of Panama.

Of this exploit of President Theodore Roosevelt one of the justices of the United States Supreme Court remarked, sadly: "A little thing like international law doesn't bother Mr. Roosevelt." On the other hand, the brutality of that operation will be justified by realists on the ground that a canal through Panama, besides being a powerful arm in the defensive military structure of the United States, has proved also a commercial gain for all merchant ships freely using the facilities of the canal.[8] There was a curious mixture of idealism and the mailed fist in the Panama enterprise. President Roosevelt furnished the iron force, and President Wilson later came along with the ethical consideration. The reader will observe, however, the *order* in which the attitudes were placed: the same

[8] But not so savory was the default of the United States as debtor to the Republic of Panama, upon its promises to pay a yearly sum in gold. This is perhaps the blackest spot in the financial history of the Federal Government.

order in which the Rockefeller fortune was put together, and then disbursed in all kinds of foundations of benevolent intent.

There is, in modern international dealings, a sort of etiquette, somewhat similar to the rules of behavior followed in a polite society of individuals. By these rules of the individuals it is important that, in laying a table, the spoon, knife and fork should be in their right places, the dining chair should be entered from the proper side, and a lady should leave her husband's card with her own. Japan, in permitting its appetite for Chinese territory to dispense with the etiquette that should govern larcenies of the kind, is in momentary disfavor with the community of nations, and the "sovereign state" of Manchukuo has not been recognized. But there is very little that can be done about it. The Japanese have merely gone back to first principles. Their creditor position toward the new state is perhaps similar to that of the Romans toward Bithynia, a country that must have been, long before the death of Nicomedes III, effectively a province of the empire, but was awaiting the moment of a *de jure* merger. Nicomedes "bequeathed" his entire kingdom to the Romans in his will. I do not believe that this extraordinary bequest surprised Rome; nor will Japan be amazed by a similar bequest of Manchukuo by Ching-Cheng Henry Pu Yi, who perhaps made his will in the earliest days of his reign.

But all instances of the state as creditor, in all history, appear to be unimportant when compared with the phenomenal, almost incomprehensible, debt situation in which the close of the World War and the subsequent frantic attempts at reconstruction left the United States, its allies and commensals. The manipulation of the "war debts," after a few attempts to bring

them into line with human possibilities and economic sanity, within a few years became so obviously preposterous that one by one the debtors informally repudiated. These have not at this time of writing been finally adjudged as formal repudiations; perhaps the delicate word "suspension" should be accepted for the moment; but the debts will never be paid for the very good reason that they cannot be paid.

Looking back at the creation of these debts, one wonders at the strange flight of common intelligence that took place among the men of politics and finance during the war period and the years immediately following. The horrors of the prolonged war, the abnormal speeding of all productive processes, the loss of the sense of proportion in respect of all exchange values, the febrile distortions of imagination (which made it possible for the non-combatant population to believe that Germans were rendering their own dead soldiers for glycerine and fats), and, finally, the riot of luxury-spending that came to the neutral nations who were furnishing and transporting for the fighters at tremendous profits—all these things resulted at last in the creation of a fictitious world of economy in which astronomical dimensions seemed perfectly within the grasp of mankind. The word "milliard" or "billion" became as current and easy to say as formerly the words "pound," "franc" and "dollar." The smallest nation would not have condescended to talk in anything smaller than millions.

As late as 1916, when the certainty of victory was already being tinged with a shade of doubt in the minds of the Germans, their government was still holding out the prospect that the Allies would be forced to pay an indemnity sufficient to

wipe out the entire German debt of 1914, besides footing the bill for the war expenses. On the other side, when the Germans began to give way before the last desperate drive of the Allies, now reinforced by Americans, the allied statesmen exulted in the thought that not only was victory near, but the Germans were going to be assessed such a fine as greatly to lighten the debt burdens of the conquerors.

On both sides, this was pure illusion. The government heads were merely addled by the long strain: they were all war-drunk, as a matter of course, but in addition they had entered a new phase of war pathology never before known in history. They were debt-drunk. The use of public credit had reached such absurd proportions, and the debasement of currencies had to such an extent coincided with the creation of debt, that ordinarily responsible men began to see wealth where it did not exist, and to mistake hopeless bankruptcy for a promising financial condition.

For Europe, these bubbles burst rather promptly after the signing of the peace treaty. But in the United States, which had blown the greatest bubble of all, the illusion continued, being only slightly affected by the deflation of 1920; and this was natural, because the United States, coming late into the war, had for three years been the receiving end of a pipe line through which were flowing the various token forms of Europe's exchangeable surplus wealth. The stock of gold coin and bullion of the United States, which in 1913 had been $1,870,000,000, rose to $3,163,000,000 in 1918. From being a debtor country at the outbreak of the war, the United States emerged from the struggle with nearly a third of the gold of the entire world, and with promissory notes in excess of all

gold in existence, and furthermore exceeding all the gold likely to be in existence for years to come. This is interesting to remember, in view of the fact that the United States desired its debtor nations to pay in gold rather than in goods.

Many volumes have been written around the war debts, and quite naturally much that was written in the early days of the debts was invalidated by later developments. All that can be done in this brief sketch—and perhaps all that now need be done—is to clarify the basic folly that led to the impossible and tragic situation in which a single government creditor, the United States, became the theoretical mortgagee of the assets of all the principal nations. I say theoretical, because in fact such a condition could result only in wholesale violations of contract, in scuttlings of pledges of faith; and this is the result we see.

The full irony of the adventure cannot be grasped without understanding that people of the United States never at any time clearly understood what was taking place in Europe, and never at any time wanted to go to war. Indeed, at the very outset, so little was the economic future foreseen that prices broke on the stock exchange, and holders threw madly into the market the very shares which later were to reflect mountainous profits. For two years of the war, during which the heavy industries of the United States boomed and swept all domestic trade upward with them, the political thought of the country was to keep out of the war, to make money, and to compel the recognition of the freedom of the seas for neutral carriers. The insistence upon this doctrine, together with the domestic pressure of the large German and Irish population, seemed likely at times to plunge the country into the war

against the Allies, and therefore with the Central Powers. It was possible for a Senator representing an interior state to rise in Congress and say that his constituents did not care whether New York and the other seaboard cities were bombarded; they wanted peace: and President Wilson was elected for a second term upon the slogan, "He kept us out of war!" When the United States finally entered the struggle, we were literally tossed into it by a decision of the President; unprepared, reluctant, still uncomprehending, and in a few isolated localities openly rebellious. By advanced advertising methods, songs, four-minute speeches and high-pressure salesmanship, the attitude of the people was soon changed, so that in a few months it became dangerous to have a German family name, and Lafayette and Rochambeau were disinterred and paraded. In short, all the devices for flagellating the emotions, which had been so liberally employed in Europe for more than two years, were transferred to the United States, and the people were now joined in the enterprise of destroying wealth with credit facilities.

But the position of the American people was rather extraordinary. They were lending money to their own government, at interest, for the prosecution of the military operations of the United States; the American government was lending credit to the European Allies, also at interest, and really shipping goods; the prices of supplies rose, and the profits of the manufacturers and traders became colossal, part of these profits sifting down to the workers; thus inflation was being produced simultaneously, in the United States, by two sets of debts at once. There was also the inflow of gold or gold securities and the sudden repatriation of American debts held abroad.

In Europe, Great Britain alone of the combatant powers was acting as though she really expected to pay for the war sometime without having recourse to a miracle—or to the bankruptcy bench. Her largest budget raised from taxation prior to the war had been about two hundred millions sterling. During the war it rose to an average each year of eight hundred and thirty millions. Besides, England was not printing paper money recklessly; the increase in circulation was great, but it was kept well covered by gold. France, on the contrary, with a population characteristically resentful of taxes upon income, turned to loans, internal and external, and worked the printing presses. At the end of the war the note issue of France was more than 27,000,000,000 francs. It did not stop there, but mounted to 38,000,000,000 in 1920, and narrowly escaped going the way of the German mark issue in 1926, when a devaluation of 80 per cent was forced by the vigorous Poincaré.

The policies pursued by the other Allies resembled that of France, when they did not more closely resemble the methods of common mendicants. The result of their unwillingness to tax themselves to the marrow was that soon they were holding their hats at the door of the British exchequer, and the final months of the war saw England borrowing from the United States to relend to her Allies. France was also a lender to her sicker partners, and even Italy became a creditor for a comparatively small amount of the whole debt nightmare. Into Russia, mostly by way of England, was pumped more than five billions of dollars, and this not only did not prove a good military investment, but with the fall of Kerensky and the triumph of the Sovietists, was definitely uncollectible and

removed from even polite discussion. Perhaps it was just as well so. The vast solemn labors of debt commissions, which sat before the Mount Everest of debts and considered how the balances could be founded in a form consonant with "the capacity to pay," were not exercised about Russia. For that great country, the twelfth of March, 1917, was the beginning of the year 1, all previous bookkeeping being denounced as a trap for the innocent proletariat.

By December, 1925, the jugglers of the international debt had reached the conclusion that France owed $7,600,000,000 and was creditor for $3,080,000,000; that Great Britain owed $4,800,000,000 and was creditor for $11,320,000,000; that Italy owed $5,200,000,000 and was creditor for $90,000,000; and that the United States was debtor to no nation, and creditor for $12,780,000,000. There had already begun, of course, a concerted drive at the principal creditor—the *ultimate* creditor, indeed—and the unkind appellation "Shylock" began to be heard. It was quite obvious that if France and Italy should pay Great Britain, the latter country could pay the United States. If the Germans could be made to pay France, France could pay Great Britain. But the grandiose plans for assessing sufficient damages to Germany had been wrecked on the rocks of fact, and the thirty-three billions of dollars assessed to Germany as a bill for reparations in the London Settlement was soon acknowledged as an absurdity. Even this thirty-three billions was a reduction from the madness of the first post-war arithmetic, when, according to M. André Tardieu, it would have required no less than ten *trillions* of gold francs from Germany to satisfy all the punitive and replacement claims.

It is a matter for a little wry amusement to look back upon the parochial innocence that led the Committee on Ways and Means of the House of Representatives, in reporting the First Liberty Loan Act, to state: "It will be observed that the credit proposed to be extended to foreign governments will take care of itself and will not constitute an indebtedness that will have to be met by taxation in the future." Lloyd George had no such idea from the very entrance of America into the war. He insisted that the United States, when it became an ally, should contribute money to the common cause just as it contributed men and materials. This sounded impudent enough, and the essential truth back of the statement was quite lost on a people who had never indulged before in an international conflict. It was the viewpoint of a world mentality opposed to that of a brilliant and rich nation of hermits. Lloyd George could excuse the assumption on the ground that Great Britain had forgiven the debts of her allies after the Napoleonic wars, and further, that early in the Great War England, France and Russia had pooled their financial resources, including gold reserves, with England as general banker.

The same divergence of view was emphasized when, early in 1920, Great Britain made a blunt bid to the United States Treasury toward the general cancelation of all war debts.[4] The reply of Secretary Houston was equally pointed. The United States, he said, had neither sought nor received substantial benefits from the war and would make *no further contributions.* President Wilson, later in the same year,[5] minced no words in controverting the "kind of logic" which could sug-

[4] Letter from Basil P. Blackett to Treasury Secretary Rathbone, February 4, 1920.
[5] Letter from President Wilson to Mr. Lloyd George, November 3, 1920.

gest "either that the United States shall pay part of Germany's reparation obligation, or that it shall make a gratuity to the Allied governments."

Here was the outward issue fairly joined. The British, who stood to lose more in money in the general cancelation than they could gain, but true to their ancient conviction that this is a trading world, and can bear the existence of no great bankrupt and anarchic nations in its orbit, argued that "the mass of inter-governmental indebtedness not only involves very grave political dangers, but also forms at the present time a most serious obstacle to the recuperation of the world." On the other side the United States, already inclined to be sorry that it had ever entered the war, conscious of the enormous and possibly vital aid it had rendered its Allies, and emerging with no gain in territory, felt that it had done enough and more than enough; in fact, that its generosity had been imposed upon by some of the nations, who were playing the game of the "poor relations."

This was the exterior conflict of views: but behind these was a chasm that could not be jumped. The United States sincerely regarded all the loans, war and post-war, as commercial loans. Great Britain, France and Italy, with equal sincerity and with a historical background in such matters, saw the war loans as clearly political, and were even inclined to the view that most of the post-war loans could be adjudged a politico-economic effort on the part of all the former combatants, to put the world into a position where all could benefit by the resumption of normal trade and social relations. The United States wanted its money back, saying with perfect truth that if the Allies didn't pay, the American taxpayer, who had fur-

nished the loans that made the credit extensions possible, would have to foot the bill. The reply to that was, that though this was true, the Americans had already made a good deal of money in the sale of goods early in the war; they were rich, they had great resources, and being so, they would in the end gain more than any other nation by being temporarily benevolent.

But now the Germans, who were to be made to pay a stinging indemnity for their sins, perceived clearly what was going on among their late enemies, and were not slow to take advantage of the opportunity. Certain of their obligations they had undoubtedly fulfilled. Certain offers of restitution, such as providing skilled workmen to rebuild the ruined parts of France, were refused on the ground that the French workmen themselves needed the employment. Over all, there was probably the grim determination to avoid paying any more, or any longer, than they were forced to pay by the threat of bayonets; whatever may be thought of the ethics of the German conduct, it has to be admitted in the end that the law of self-preservation will prevail. An angry difference arose between Germany and France as to the amount which, in late 1924, had actually been paid by the former. The Germans showed bookkeeping of one kind, and the French another; of the claim that nearly fifty-seven billion marks had been paid, aside from the instalments under the Dawes and Young plans, the French would allow credit for less than eleven billions.

What was more clear, and increasingly menacing, was that the reparation payments and the inter-Allied war debts were causing a stasis of the blood currents of world trade. The whole fruitless business having come to an end, it is a waste of

time now to trace the steps by which conference after conference and commission after commission tried to reconcile the irreconcilable and make water flow uphill. The complete bankruptcy of Germany in 1923, and the narrow escape from a similar fate of France in 1926, were unerringly pointing at a world collapse in 1929. There could have been no other result: natural laws, if there be no natural morality, demanded the end of such a debauch of debt. World finance had passed from the hands of banker-minded economists, through the hands of broker-minded economists, to come to rest finally in the grasp of common gamblers. There was no way out of a financial labyrinth of which the single exit had been stopped by the refusal of creditors to take payment in the only possible media of payment; even if it were within the bounds of possibility that the debts could be paid in any manner whatsoever that would not ruin the creditor as well as the debtor.

In their excellent book on *War Debts and World Prosperity,* Messrs. Moulton and Pasvolsky came to the unequivocal conclusions:

> 1. That a complete obliteration of all reparation and war debt obligations would promote, rather than retard, world economic prosperity.
> 2. That the collection of these inter-governmental debts would be economically detrimental, rather than beneficial, to the creditor countries.

Unfortunately the corpus of the debts will probably be kept in a state of suspended animation for a long time to come, for internal political reasons. It is perhaps just as well that it should be, in spite of the ugly aspects of defaults, repudiations, and animosities; for the people of all countries, and especially

the people of the United States, should be able to view the cataleptic subject long enough to ponder well its implications.

The conclusions of Messrs. Moulton and Pasvolsky were all that their field of inquiry permitted them to make. But there is a far wider sphere of speculation involved.

Nations cannot without danger become creditors of other nations to any amount whatever. No loan from one nation to another nation can possibly bear merely commercial significance; from the very nature of the state, as opposed to that of individual or the corporative group, the loan will be political.

Wherever such political loans are in vast amounts, the result will probably be, though by indirection, a war; and wherever a nation has deceived itself into thinking that a political loan is a commercial venture, and cannot undeceive itself, the resulting fury of that disappointed creditor will wreak itself inevitably upon world commerce—which is to say, upon itself as well as the debtor.

It follows that no nation should ever make commercial loans to other states. Its citizens may make such loans, but distinctly at the risk of their capital, without recourse to governmental pressure.

It is doubtful if a state should ever make political loans to other states. If the security of the state demands that it join other states in a war, or subsidize a war to be conducted by other states, the money should be *given* as an instrument in the conduct of the war. When it gives such money, it is really giving a call upon goods; therefore it is giving goods, and it is with men and goods that war is made. To differentiate between a contribution of money or credit and that which is to be purchased or equipped with the money or credit, in such a

case, is a palpable absurdity. And if a state finds itself, by its own will, in alliance with needy countries, and must maintain the war with its own wealth, it must abide by the choice it has made and give cheerfully, or quit the war.

It is my considered opinion that if these conclusions were confirmed in the political practise of states, the threat of war would be greatly diminished, though not eliminated.

As a debtor of its own people, a government is usually dilatory and hedging, taking advantage of all technicalities, as was seen in the ruthless violation of contracts at the close of the World War; but as a creditor, none could be more peremptory and unremitting, so that, in the case of the collection of death duties, a great fortune is likely to be thrown headlong into an unfavorable market in an attempt to meet the taxes. So that it is often said with truth that it is better to have a pawnbroker for creditor than a government agency, for the usurer sees some self-interest in moderation, but the government knows only one word: *collection*. When, in abnormal times, the government sees fit to treat some of its debtors with political lenity, it will be found that it doubles its severity toward those debtors whose voting power is temporarily negligible.

XVI

GOVERNMENT AS SWINDLER

Then, again, the King is a great magician, for his dominion extends to the minds of his subjects; he makes them think what he wishes. If he has only a million crowns, he has only to persuade them that one crown is worth two, and they believe it.

MONTESQUIEU, *Lettres Persanes*

"I AM always of the opinion," said Xenophon, "that of whatever character governors are, of a similar character also are the governments which they conduct."

No government, as government, has a sense of honor comparable to what may be possessed by an individual. A government is neither honorable nor dishonorable, except as it reflects at any given moment the ethical or commercial standards of its leading men. But it is inherently more *susceptible* to dishonest actions than are those same men as individuals.

When we speak of one country as being jealous of its credit, and another country as being careless of its honor, what we mean is that the first country habitually elects to command those who are schooled in the long-range advantage of upright conduct, while the other chooses as its governors those of a different persuasion and training. And the election of such leaders in normal times will generally reflect the attitude of the electorate.

Here great differences occur, as, for example, between the Japanese and Chinese, and between Great Britain and Mexico.

The Japanese, who as individual debtors have never been highly rated, are possessed of an almost fanatical reverence for the emperor, and thus, through him, for the state. As the honor of the state is the honor of the emperor, and both are at stake in the fulfilment of financial contracts made with the rest of the world, the credit of the Japanese Government has been maintained on a high plane. It is exactly opposite with the Chinese, whose governments are notoriously bad debtors, but whose individual integrity as debtors, at least until most recent years, has been equally famous.

I do not suppose it will be denied that, taking one country with another during the past two hundred years, the merchants of Great Britain have achieved the best record for honorable dealings in the field of business both at home and with other nations. It is not necessary to infer that the British people, in the beginning, were more upright than any other. It means that they had become a more completely civilized people than any other: for what is civilization except the realization that promises must be faithfully kept? It can rest on no other basis. Naturally, such a widely affirmed prosperity of a people will be reflected in the conduct of their government.

The habit of keeping promises, formed through such a practical conviction, will inevitably lead to a code of honor in the personal conduct of the citizen, thus becoming a *moral* position. What was at first a sense of good business, resulted at last in a sense of duty and a matter of pride. And though, since the Great War, the British have not been unaffected by the general relaxation of business morals throughout the world, the enormous burdens are still being faced with high courage

and honesty, which still deprecates a tendency toward political slyness and clever manipulation.[1]

In Mexico (to name only one of a great number of smaller and less civilized states) it is not surprising that there has been no such record of government honesty. Such probity requires, for existence, a powerful middle class, and this only a trading nation is likely to have. In a two-class country, where a small number of somebodies wax prosperous by exploiting the labor and the passions of a great number of peons, the sense of mutually profitable fair-dealing has no soil to grow in. Commercial and political and social honor will exist, but they will be the special possession of families and individuals, isolated from the general tendency. In such ruder nations there will often be a balancing sense of pity, very beautiful in itself, but not a force in economic life.

But no government, as government, can even under the best circumstances be as just as the median concept of justice of its people as individuals. It is a natural defect of government that it is a sort of *société anonyme*, where responsibility is hard to fix; where, in public office, there is a press of statesmen, politicians, nobodies, parasites, exploiters, and plain fools, making laws, jostling for privilege, tender of local and special interests, and watchful for the prosperity of a party.[2] The miracle is,

[1] The decision of the British Government to pay interest on its 5½% dollar bonds in depreciated paper dollars, with an option to convert to a lower coupon of sterling, was not *very naughty*, as financial jockeying now goes, but it was not up to England's high mark. The *Times* of London shook its head with disapproval: "In these circumstances, many will think that the Government have missed a fine opportunity to strike a blow for the sanctity of contract, which is being violated all too easily today."

[2] There have been statesmen who were personally dishonest, yet cherished the honor of the state; and there have been politicians who, blameless in their private affairs, saw no harm in government default. This is political wisdom and personal frailty on one hand, and personal probity and economic ignorance on the other.

not that so much harm should be done, but that so little harm should be done, in government. It is a real mystery that so bungling a machine should not fly apart before it can effect anything at all. At any rate, what I mean to propose is this: that if any man were given his choice, to accept the promise of the average individual or the promise of the average governors, he should unhesitatingly put his credit in the individual. There, at least, he would have the satisfaction of knowing with whom he was dealing. There, he would discern responsibility. There, if it should prove that his faith was betrayed, he would have recourse. To do any business whatever with a government is to contract with an obligor which can change the laws to suit its convenience, which controls the police power, which is the expression of a welter of diverse purposes and designs, and which, finally, is likely to be in the hands of an entirely new lot of leaders before the business is finished.

But it is necessary to do business with government; for all governments are, first of all, in the way of borrowing money. They must borrow money either at home or abroad. In the former case, those subjects who have lendable means become creditors. In the latter case, the creditor is either another government or the subjects of other governments.

All governments, as borrowers, are potential swindlers. It is not cynical to say this: it is simply a fact. The reason is obvious. No matter how honorable may be the intent of the borrowing government at the time the loan is made, the term of the loan is usually so long that it is almost certain that the officials who originally contracted the debt will no longer be in power. Most governors give way, after a few years, to a new

set of governors representing a radically different scheme and sometimes brought into power by violent displays of unrest on the part of the electors. The tendency then is to undo, or nullify, something of what preceding governments have done. Changes in the economic condition of the state may suggest, what was not before charged, that in contracting certain obligations the former governors went beyond their powers, or were evilly disposed, or were recreant in some such definite way that repudiation of their acts is commanded by morality itself. Every government borrowing, therefore, carries with it the political germ from which a repudiation may more easily develop than in loans to individuals.[3]

It is a question whether any government, were it not for the fear of being unable to borrow further, would meet its obligations over any considerable number of years. Those readers who regard this statement as an outburst of asperity will do well to weigh the historical record of governments as debtors.

Governments as borrowers may be divided into three classes, as follows:

1. Those governments which at the time of borrowing contemplate a fraudulent bankruptcy. Such governments are fortunately not numerous in our times, though they are not as rare as might be wished.

2. Those governments which at the time of borrowing do not contemplate a fraudulent bankruptcy, but whose conduct

[3] L'Etat, même débiteur des particuliers, reste toujours l'Etat. Il est toujours armé de ses prérogatives de puissance publique. Il peut, quel que soit son créancier, invoquer, pour ne pas payer, les limites de sa capacité de paiement; enfin, les mesures d'exécution forcée n'ont que peu d'efficacité contre lui.—MAURICE VION, *Dettes Politiques et Dettes Commerciales*, Paris, 1932.

at the very time of the loan suggests a probable bankruptcy which cannot be called innocent.

3. Those governments (and this class is in the majority) which neither intend to swindle nor appear as bad risks, but whose structure, political and economic, provides the background of default or repudiation—thus making it, in times of stress, a continual debate in the minds of the governors whether honor is worth all it is costing. At this point, note well that *color* of individual promise-keeping, reflected from the individuals upon the government, will be the factor which determines the fate of the contract.

In the first category, the monarchs of the Middle Ages were adept. The Bourbons alone had no less than fifty-six bankruptcies, and the Valois line had somewhat fewer, but worse. It is questionable if the Turks, when they borrowed so largely of their European neighbors by playing the balance-of-power game in the middle of the last century, had any intention of meeting their obligations. Certain of the Latin-American countries have undoubtedly borrowed in bad faith; and it is difficult to believe, in view of the subsequent attempts to evade payment, that some of our own states did not deliberately swindle their European creditors during the years of railway and bank development after 1820. "In the spring of 1874," the report of the Corporation of Foreign Bondholders of London recites, "Mr. D. A. Hadley, ex-governor of Arkansas, whilst in London, by means of letters to the *Times,* endeavored to vindicate the conduct of the State of Arkansas toward creditors. All the obligations of the state at the time were practically repudiated. Mr. Hadley's arguments failed to convince." It appears that the cool effrontery of the defaulting

states often dazzled and made speechless their deluded creditors.[4]

In the second category, embracing those nations which never should have been permitted to become debtors, because all the surrounding circumstances indicated an unusual jeopardy of the lent capital, we see very early in the history of public debt the adroit hand of the broker. The business of hawking state debts is ordinarily enormously profitable; though there is the risk, of course, that the issues cannot be unloaded upon the public before some economic change or unexpected market saturation takes place. Then the broker precedes his clients into bankruptcy, as was the fate of Overend Guernsey, Murietta and Company, and Baring Brothers. From 1925 up to 1929 there were turned loose upon an unsuspecting American public (unsuspecting, because Americans were new at foreign public-debt investment) some billions of dollars of fantastic foreign-government promises, liberally lubricated with high coupons. The profits to the houses of flotation were colossal, as has since been revealed in Congressional inquiries. In many cases there was positive knowledge, on the part of the sponsors of the obligations, that the money borrowed would not be used for the purpose alleged; bonuses were demanded by the brokers; the loans were sometimes in the interest of companies of exploitation with which the brokers were directly or indirectly connected; false statements of national and regional condi-

[4] But the classic bit of impudence, which probably never can be equaled, was that of Dr. Schacht, president of the Reichsbank and finance minister of Germany, who in 1934 denounced his country's foreign creditors for having loaned the money! There is a basic truth in such a charge. There has been too little scruple in lending as well as borrowing, and a lender may be justly charged with economic immorality; but when the great ethical teacher in such matters comes, it will not be Dr. Schacht, nor will the martyr borrower be Germany.

tions were either accepted blindly by the underwriters or feloniously encouraged by them. The fool and his money were soon parted: perhaps it was all a part of the reckless, soulless orgy of materialism that followed the Great War. If capital possessed a good memory, it would be impossible for most of these states to borrow, or for their associated debt-mongers to enjoy any public confidence, for many years to come; but capital does not possess a good memory; its timidity can always be overcome by a prolonged period of low-interest return.

The rest of public borrowing is comprised in the third category. A few of the more famous bankruptcies of the nineteenth century, previous to the World War, are: Spain in 1820, 1831, 1834, 1851, 1867, 1872; Greece in 1836 and 1893; Denmark in 1812, 1813; Prussia in 1807, 1813; Austria in 1802, 1805, 1806, 1811, 1816, 1818, and 1868; Holland, 1814; Portugal, 1830, 1853, 1892; Russia, 1839; Turkey, 1875, 1881.[5] For many years the obligations of South American states could not be quoted on any European stock exchange. For more than half a century the American states, sometimes a dozen of them at one time, were on the blacklist of Continental lenders.

A bankruptcy, of course, does not imply that the creditors were completely wiped out. On the contrary, so far as external borrowing is concerned, all nations and subdivisions of governments are eager to make a composition, *à bon marché,* which will permit them to return to the money-market in as good standing as possible. So that a default, or even a repudiation, usually leads to a series of conferences, a volume of proposals and counter-proposals, threats, tears, new promises, and, in the case of defenseless or unwarlike states, perhaps an in-

[5] Birck, *The Scourge of Europe.*

vasion of sovereignty by the creditor: such as the humiliating situation where the taxes or customs are collected by a committee for the benefit of the mortgagee.

The question is often asked by aggrieved holders of public debts, when the debtors are foreigners, whether their home government cannot do something about collection. In the last resort, the only way to collect such debts would be to go to war; and it speaks well for the sobriety of the modern state that this is not done. Large nations can swindle foreign creditors with no further damage than a temporary loss of their financial reputation. Small countries have to be more careful how they behave, even though they may hope that the jealousies of larger nations will protect them. Sometimes the larger nations agree to let smaller ones take the punishment for their sins, where no invasion of strategic territory is involved.

As for the public debt situation since the World War, it can hardly be described better than to call it a bedlam. At this moment of writing, nearly all the small nations—and all the great ones—are solvent only by rhetorical courtesy, or by the growing difficulty, in a hysterical world, of deciding what constitutes bankruptcy. Judged by the rules which govern individual enterprise and finance, they are insolvent, and some of them quite hopelessly so. But some of them, by a kind of bookkeeping legerdemain, keep up a glowing fiction of solvency, and await, with really remarkable composure, the great *seisacthea* or burden-lifting, which will be international and not long delayed. Such a *seisacthea* must be an expropriation of capital: and this brings us to the consideration of

the manner in which public debts, when they have reached the point where they can never be extinguished by the means implied in the bond, are dissolved.

We have seen that a public debt may be internal or external. When it is owed in terms of another currency than its own, it is presumably owed abroad. When it is in terms of its own currency, it is owed to its own capitalists, large and small. It may be that some of the domestic debts are held by foreigners, but in that case the position of such creditors follows the fate of the currency involved.

We have also seen how public debts, which represent deferred taxation, tend to mount through the dexterity of politicians and the gullibility of the citizen and taxpayer, who can be led to believe that (1) he is getting something for nothing; or (2) that debts will be easier to pay next year than this year; or (3) that his children and grandchildren will be in ecstasy at the settlement of obligations incurred by their revered progenitor. To such politicians certain political economists lend their assistance (though the help is not highly esteemed, because most politicians suspect economists of levity) by harping upon public debt as a credit base, as an urge to productive effort, and as (in the case of domestic creditors) "a mere transfer of property from the right hand to the left." Combined with the lust for novelties and glittering objects of the public itself, these efforts result in the creation of a public debt which sooner or later must reach such proportions that, if a condition of burdensome private debt happens to supervene, the creditor, foreign or domestic, must prepare for a shock. The scene is now ready for the development of the swindle that is potential in all

pubic debt. The question now becomes: "By what method shall the operation be performed?"

Governments would naturally prefer to swindle foreigners rather than their own people, because this means an accession and retention of gold, while the latter is simply a transfer from the pockets of their own frugal and industrious citizens for the benefit of the debtor and of the politician. But, besides a remote sort of international pride, there is the prudent consideration that foreigners can at least wield the club of blacklist; and in normal times this is a deterrent, for governments expect to be borrowers again, and frequently. Remark that I have said "in normal times," for the present tendency is to make no distinction between foreign and domestic creditors. This willingness to victimize the foreigner without prejudice may be, after all, a triumph for the international mind, the breaking down of nationalism.

There will always be, in every country, government officials who have a tender sense of propriety: these will wish to meet foreign obligations even at the cost of increased domestic burdens. Opposed to them will be parish orators who regard all foreigners as the Japanese did before Admiral Perry did his missionary work.

So the time comes when, as David Hume suggested, *"the nation being heartily sick of its debts and cruelly oppressed by them, some daring projector may arise with visionary schemes for their discharge."*

In the days of absolutism, the "daring projector" was a fiscal agent or courtier, called upon by the monarch to devise a scheme for relieving the royal debts; or a brilliant visionary like John Law, peddling with deadly sincerity through the

shaky courts of Europe a scheme of perpetual motion.[6] In modern parliamentary governments, the projector is either a demagogue or a deluded zealot, practising upon the simplicity of the people in a time of depression and disillusion.

Before book-credit became common, and in the times when commerce was effected through the circulation of hard money, the natural recourse of the projecting magician was the debasement of the metal coinage—every "clipping" in silver or gold content meaning, of course, a profit to the source of issue or a reduction in the debt. Gresham's law (that bad money drives out good money) dates from such a period. The law is absolutely correct in essence: for while it is true that a limited amount of debased money can be put into use alongside the good coinage, it is also true that the process of debasement is an accelerating one, just as is to a greater degree the issue of unredeemable paper; so those who quarrel with Gresham's statement are merely indulging in a quibble.

But it must also be noted that when the currency measure is debased the *effect* of such an act really waits upon the *general perception* that a fraud has been committed. This is important to realize, for when the inflation takes the form of the issue of bank credit or irredeemable paper, it likewise holds true. Much has been written and spoken about inflation,

[6] For a graphic and sufficiently accurate picture of Law's delusion and its consequences, the reader can do no better than read Washington Irving. Irving was the American Defoe—writing competently on all kinds of subjects. A French versifier consoled himself with this satirical epitaph, when the Law bubble burst and the fragments of the country's economy were being laboriously reassembled:

> "Ci-gît cet Ecossais célèbre,
> Calculateur sans égal,
> Qui, par les règles de l'algèbre
> A mis la France à l'hôpital."

With every legislative act looking toward paper-money inflation, provision should be made for a large supply of ambulances!

but in the statement of the case against this kind of financial assassination of the small capitalist, two vital facts are commonly neglected, and for want of a lucid statement of these two facts, great delusions are permitted to exist, especially in the first days of an inflationary program. These two facts are:

1. The vital prerequisite of an effective inflation, which will result disastrously to the creditor position, *is the intent to falsify the true economic position of a nation, or to relieve the debtor at the expense of the creditor.* Where there is no such intent, there may be a temporary inflation, not harmful, possibly beneficial—and it will contract itself when its work is done.

2. Inflation, whether of bank credit or of paper currency, cannot be effective until *the larcenous purpose is generally comprehended.* This explains why in 1933 and 1934, in the United States, the credit base was enormously extended without any considerable effect upon trade or employment. The credit simply lay inert: business did not care to employ it abnormally, and there was not sufficient *fear* to induce its abnormal use. In this period, 1933-34, in the United States, prices rose, but not because of inflation. A similar case is observed in all paper-money expansions. At first the money makes only a short turn and goes back into the banks. Prices do not immediately rise, because the fraudulent purpose is not understood.[7]

[7] In Germany, in the first days of the post-war inflation, when the mark had fallen to 14,000 or 15,000 to the pound sterling, prices had risen so little that the writer was able to live at one of the best hotels in Berlin for the gold cost of eighty cents a day. The day comes when the whole ghastly intent is understood: then it is too late to retreat.

We are concerned, in this book, not with the mechanics of inflation or the results of inflation, but with the cause, which is debt. Therefore only a few observations are made here on this greatest of political crimes. Whether war or paper-currency inflation is the worse may be a matter of opinion, but this may be fairly said: that, bad as is war, it stimulates momentarily the productive life and induces noble sacrifices, both in the soldier and in the people at home. Unchecked inflation ends by killing all incentive to work, even to live, and produces such a disruption of the social order that the commonest virtues are chilled and atrophied.[8]

A curious thing about inflation is that only the most ignorant or infatuated politician in our days would admit being in favor of it. This is not because he does not promise to produce magic, but because the word "inflation" is somewhat in disrepute.[9] He therefore is more likely to say, "Oh, of course we do not want inflation. Now, I have a plan which is different. . . ." Then he expounds his mighty thesis—and you discover it to be pure inflation.

It may be instructive to glance at John Law's methods of high finance, as interpreted (allegorically and satirically) by Montesquieu in this excerpt from his *Lettres Persanes*:

> In an island near the Oscades, a child was born whose father was Æolus, the god of the winds, and his mother a nymph of Caledonia.[10] They tell of him that he learned unaided to count

[8] There is a voluminous literature on the subject. For those who fancy that they lack the energy or the time to read comprehensive studies, Dr. Andrew White's *Fiat Money Inflation in France* and *Inflation and After*, a report of the Duke Endowment, are two concise, revealing documents on the world's greatest experiments in financial alchemy.

[9] The impostor word "re-flation," which means nothing, was introduced to delude the public.

[10] Law being a Scotsman.

with his fingers; and that from his fourth year he distinguished metals so well, that his mother, having given him a ring of tin in exchange for one of gold, he perceived the deceit, and threw it away.[11]

When he had grown up, his father taught him the secret of inclosing the winds in skins, which he afterward sold to all the travelers: but as the trade in winds was not very brisk in his country, he left it, and went up and down the world, accompanied by the blind god of chance.[12]

During his travels he learned that gold glittered in every part of Betica;[13] and he hurried thither at once. He was very badly received by Saturn,[14] who reigned then: but that god having quitted the earth, he judged it wise to go into all the crossroads and cry continually in a hoarse voice, "People of Betica, you think yourselves rich, because you have silver and gold! I pity your error. Be ruled by me: leave the land of the base metals; come into the empire of the imagination, and I promise you riches which will astonish even you." He immediately opened a great number of the skins which he had brought with him, and dealt out his merchandise to all who wished it.

Next morning he returned to the same crossroads and cried, "People of Betica, would you be rich? Imagine that I am very rich, and that you are very rich: get yourselves into the belief every morning that your fortune has been doubled during the night: rise, then, and if you have any creditors, go and pay them with what you have imagined, and tell them to imagine in their turn."

A few days after he appeared again, and spoke as follows: "People of Betica, I perceive that your imagination is weaker than it was a day or two ago: try to bring it up to the strength of mine: I will place before you every morning a bill which will be the source of wealth for you: you will see only four words,[15] but they will be of

[11] Refers to Law's early development of a genuine genius for figures.

[12] The Scotch government rejected Law's proposals for inflation, whereupon for some time he traveled about Europe gambling for a living.

[13] France.

[14] Louis XIV.

[15] *Le cours des actions:* stock-market prices. Law begins to blow the Mississippi Bubble.

the highest significance, as they will settle the portions of your wives, the fortunes of your children, and the number of your domestics. . . ."

Some days later he came into the street, quite out of breath, and cried out in a violent passion, "People of Betica, I counseled you to imagine, but you have not done so: well then, I now *command* you to imagine." With that he left them abruptly; but on second thoughts retraced his steps. "I understand that some of you are odious enough to keep your gold and silver. For the silver, let it go: but the gold . . . the gold . . . Ah, that stirs my anger! . . . I swear, by my sacred windbags, that if you do not bring it to me, I will inflict dire punishment upon you. . . ."[16]

The son of Æolus was addressing people who were in no mood to be amused, yet they could not restrain their laughter; which caused him to slink away in a shamefaced manner. But, his courage having returned, he risked another little petition. "I know that you have precious stones; in the name of Jupiter, get rid of them; nothing will so impoverish you as things of that kind; get rid of them, I tell you.[17] Should you be unable to do so yourselves, I can provide excellent agents. What wealth will pour in upon you, if you follow my advice! Yes, I promise you the very best my windbags contain."

Then he got up on a platform, and in a more resolute tone said, "People of Betica, I have compared the happy condition in which you now are with that in which I found you when I first came here: I behold you the richest people in the world: but in order to crown your good fortune, allow me to deprive you of the half of your wealth."[18] With these words the son of Æolus soared away on rapid wings, and left his audience dumb with amazement, a result which brought him back next day, when he spoke as fol-

[16] The government ordered all gold to be delivered to the Exchequer on pain of imprisonment. There was no Supreme Court to decide that though this infringement of liberty was naughty, there was nothing to be done about it.

[17] Next the people of France were ordered to bring their jewels to the government pawnshop and receive paper promises in return.

[18] A devaluation of the currency.

lows: "I perceived yesterday that my speech displeased you very much. Very well! suppose that I have said nothing at all yet. . . . We must find some other expedient to arrive at the result which I have proposed. Let us gather all our money into one place; we can do so easily, because it does not occupy much space." Immediately three quarters of their money had disappeared.[19]

All substitutes for inflation, under any style or name whatever, are inflation—except *one:* to balance the budget, to live within the nation's means, and to forego luxurious expenditure and innovations until the conditions which produce the clamor for inflation have passed.

In 1767 Benjamin Franklin, then in England, wrote to Joseph Galloway concerning his efforts to induce the British government to permit the issue by the colonies of a certain amount of paper currency which would be legal tender. The issue was to discharge part of the public debt, but there was the excuse for it that there was undoubtedly a lack of circulation in the provinces.

Franklin was rebuffed by the head of the Board of Trade, Lord Hillsborough, whereupon he wrote a public answer to the objections of the crown. Undoubtedly Franklin was sincere in saying that a very moderate issue of paper would not be harmful: but his truly native and sagacious view was revealed in a letter not intended for publication. The real *Poor Richard* speaks:

> You appear to me to point out the true cause of the general distress, namely, the late luxurious mode of living induced by a too great plenty of cash. It is indeed amazing to consider that we had a quantity sufficient before the war began, and that the war added

[19] Another devaluation. It went on to practically a complete deflation of debt—or a wiping out of capital.

immensely to that quantity, by the sums spent among us by the crown, and the paper struck and issued in the province; and now in so few years all the money spent by the crown is gone away, and has carried with it all the gold and silver we had before, leaving us bare and empty, and at the same time more in debt to England than we ever were. But I am inclined to think, that the mere making more money will not mend our circumstances, *if we do not return to that industry and frugality, which were the fundamental causes of our former prosperity.*

The chief characteristic of the schemes put forth by those who fancy themselves economic innovators is their artlessness—the more amusing because guile is intended. It never occurs to the projectors that all generations of men, finding themselves called upon to perform an irksome promise or faced by a disagreeable effect flowing from a like cause, will certainly hit upon like expedients of escape. Hence, in economic history the identical subterfuges, ingenuities and incantations recur with precise regularity. "He who is ignorant of history remains always a child," said Cicero, but perhaps he might better have said "he who is incapable of making prudent inference from history."

Through these childlike disguises the true statesman sees the background of motives with a clear eye. "Real money," said Edmund Burke, "can hardly ever multiply too much in any country, because it will always as it increases be a certain sign of the increase of trade, of which it is the measure, and consequently of the soundness and vigor of the whole body. But this paper money may and does increase, without any increase of trade; nay, often when trade greatly declines, for it is not the measure of trade of the nation, but of the necessity

of the government. It is absurd and must be ruinous, that the same cause which naturally exhausts the wealth of a nation, should likewise be the only productive cause of money."

And Alexander Hamilton: "In great and trying emergencies there is almost a moral certainty of [paper money] becoming mischievous. The stamping of paper is an operation so much easier than the levying of taxes, that a government in the practise of paper emissions would rarely fail to indulge itself in the employment of this resource."

The history of national fiscal management is, bluntly stated, the continuous struggle: first, to regulate the income and outgo of a nation so that the practise of currency swindling will not become necessary; and second, the valiant effort of responsible minds, when budgets have become unbalanced through war or the excesses of peace, to restore equilibrium through Spartan self-denial. Taxation is the true tonic of a disordered financial body. Debt is merely a poisonous stimulant that defers the honest reckoning or hastens the dishonest failure. Only by paying *bitterly and at once* for their mistakes do people realize what those mistakes have been, and learn how to avoid them.

The most brilliant democrats that ever lived, the Athenians, made tragic mistakes of policy; and perhaps that statement is only another way of saying that democracy as a theory of government asks more intelligence and goodness of the individual than he is by nature fitted to give. But, with all their blunders, the Athenians never, as freemen, indulged in the final madness of debasing their currency: they never became swindlers of those who had put confidence in the Laureiot Owl. Athens rose in trade by means of establishing good

credit and by safeguarding the honor of her coin.[20] "In the most terrible years of her history, when the treasury was empty, the silver mines of Laureion abandoned, sacred vases and pious offerings thrown into the melting pot, she was indeed obliged to strike emergency coins of gold and bronze, but never consented to debase her coinage."[21] So, also, the "tortoises" of Corinth were acceptable everywhere, and the coinage of Lampsacus, Phocæa and Cyzicus reflected the courage and wisdom of the governors of the fisc.

So those states went down, when they went down, with colors flying: they had the respect of the trading world, and they had their own. The swindling government, though it may survive to sneer at the "perfectionist," the "idealist," and the "stupid orthodox mind," will finally discover a truth compared with which the aloe is sweet: that the mob whose clamors it obeyed when it quit probity for opportunity, despise it more than do the patient, frugal people who were betrayed. Let it beware the moment when the bucket is once raised empty from the well!

[20] "It is the great advantage of Athens as a mart, that you can get good money there. In most cities merchants are simply compelled to ship goods for the return journey, for they cannot get any money that is of use to them outside."—*Ways and Means*, Xenophon (?).

[21] Gustave Glotz.

XVII

DEBT AND POLITICIANS

Demagogues are the priests of the multitude.
DIOGENES

IN the French language the word *politicien* is invariably used in a bad sense. If you call a man a *politicien,* you insult him; that is, provided it be possible to insult him at all. Not all countries have as yet caught up with the French in this respect, but sooner or later all countries will.

The difference between a courtier and a politician is only the difference in the form of government. Wherever the principal power is lodged in a monarch, the courtier wheedles his living and his influence from the crown; in parliamentary governments, the politician[1] derives his preferment from the people; but the same talents are employed in either case, and the use made of the opportunity is similar.

Both courtiers and politicians are astute in converting the phenomena of public and private debt to their own advantage. The monarch who governs with little or no constitutional restraint is very likely to be in debt. The courtier trades adroitly upon that debtor position, constantly either inventing means by which the debt can be enlarged or contriving a bankruptcy by which the burden can be thrown off. The king's scriveners,

[1] By *politicians* I mean those men who adopt the political field as a livelihood and a chief activity. The doctor and the manufacturer, the greengrocer and the clerk who, from vanity, accident, patriotic inspiration or imitation, manage to get themselves elected to legislative bodies, are not *politicians,* and are only bewildered dupes in the hands of the experts.

when all is taxed that can be taxed, seek out pawnbrokers, arrange loans, commandeer what is possible in transit, and fatten upon the new inflow of wealth. They are also eager to have the creditor hanged when the loan falls due, and will act at the rope with even greater delight than the embarrassed monarch himself.

In what is called a people's government, the politician is even better situated to take care of all this. Deriving his power directly from the people, who would be supposed to select the men most nearly representing their intent and their aspirations, his first thought, when he comes to act in a congress of politicians, is to spend as much money as possible. He has some reason to make this his principal care, because there is as yet no historical record, in constitutional government, of a niggardly administration being reelected. Many governments have come to power upon a platform of economy—but never twice. We often hear that a politician is equipped with a "mandate" from his constituents toward economy in government. What this really means is that he is directed by his electors to urge other politicians—similarly instructed—to spend less, so that *his* district can spend more. As this leads to an impasse, the way out is clear. Each votes as much as possible. In politics, the word "economy" refers to something *somebody else* has done, or has not done, or is to be required to do or not to do.

Of the modern politician as a debtor in his own person, I shall not find it necessary to speak. It is probable that the typical politician is sufficiently in debt so that he may feel a genuine interest in any legislation looking toward the mulcting of the creditor class. But in a modern democracy, so ab-

ject is the slavery of the legislator to his electors that he must usually conceal his possessions rather than make ostenstation; and, as there is no pleasure in borrowing to hoard, the most successful man at the polls is likely to be he who parades a hat and coat similar in form, quality and age to those of the majority; whose opinions and intelligence display no rise above the general level; and whose campaigning kiss, when the little children are handed up for his osculation, is not tainted with the breath of thrift.[2]

In the last days of the Roman republic it was far otherwise. Bread and games, donatives and bribes, had so fixed themselves in politics that the politician who was not prodigiously in debt was a politician without a following. In 62 B.C., Julius Cæsar was in debt $1,250,000; Mark Antony at the age of twenty-four owed $300,000, and at the age of thirty-eight $2,000,000. Scribonius Curio had $3,000,000 of debts, and Annius Milo owed $3,500,000.[3] These debts were not all upon interest. Indeed, they were not all debts in the ordinary sense, for in some cases the lenders were speculating in political ability. Spengler says: "The immense debts of the Roman politicians had for their ultimate security, not their equivalent in land, but the definite prospect of a province to be plundered of its movable assets."[4] One single consulship, leading to one single campaign in Asia Minor, would be sufficient to re-

[2] The late President Coolidge, a very paragon of probity in politics, was not above having circulated in the press certain pictures of himself, taken upon his ancestral farmstead, in which he appeared in peasant garb, with a scythe or hoe over his shoulder: this to the great amusement of his neighbors, who recalled that Coolidge's interest in agriculture was famous locally for its purely academic quality.

[3] These figures are, of course, estimates. The difference in purchasing power between our times and those times would really make the debts far greater.

[4] *Decline of the West.*

imburse the gambler, pay off the money-lenders with interest, and give the successful politician a taste of solvency.

Of course, the Roman politicians were not always successful at the elections, in which case there came at last the declared bankruptcy, preceded by a meeting of frantic creditors. Annius Milo's estate paid his creditors four cents on the dollar.

Julius Cæsar was the complete politician of ancient times. Of patrician family, this young man outraged the Catos by throwing in his fortunes with the populist party, to the members of which he promised the moon. Later, like all such liberal covenanters, he was obliged to substitute some of the moon's beams for the orb itself; and to deliver even the moonshine cost him bitter pangs, for with the responsibility of office came statesmanship. But Cæsar is not the only politician in history who has had reason to blush when reminded of his campaign speeches.

When Cæsar was elected consul in 59 B.C., the distress of the "common people" was already indicating the probability of the speedy interment of the remains of democracy. The Roman government of the people, by the people, and for the people had been dead for a long time, but the fiction had been wonderfully maintained, thanks to the vitality of the legal system and the fundamental respect for that system.

There was distress: the inevitable moment had come when debtor and creditor were alike suing for the help of the government, and therefore backing their candidates for the essential offices in the government. But it must not be supposed that the distress was the honorable necessity that may come to a people by reason of famine, pestilence, or acts of an enemy. In such cases, a people tend to turn for consolation

to the ethical or religious teachers. The Romans were at the end of a boom, a drunken and disorderly spree brought on by their military successes and loot; and the fury of the people, who had been maddened by the access of Oriental luxury, was directed at those who had been thrifty enough to lay by some of the stolen riches. For some years, Rome had been a stock-jobber's paradise; and since the politician somewhat represents in government what the broker represents in commerce, it is natural for the disappointed populace to expect that politicians will find a means to avoid the logical deflation and prolong the debauch. Or, if this be manifestly out of the question, at least the expectation is that debts will be canceled.

Had he lived in modern times, Julius Cæsar would probably have promised to inflate the currency. His victorious party would have poured out a flood of paper and declared it legal tender. But classical money consisted of coined metal, which was at once a commodity and a token. This did not deny the possibility of a credit inflation, and this kind of inflation was just the sort of which the commonwealth had fallen sick. It now became the popular cry that the debtor would have to be relieved, and the Cæsarian party triumphed on such promises, as well as on the usual bait held out to farmers, the victims of both mortgages and low prices.

Caius Cæsar was a brilliant governor, and at heart a sound economist. Once in the saddle, his chief difficulties arose from the necessity of curbing the lunatics, the financial lyrists, and the demagogues in his own retinue.

It is the fate of campaigning orators to be taken literally: Rhodian metaphors are construed as attainable programs.

Cæsar had to face a demand for more monetary circulation. The answer was a law that nobody in Italy should have in his possession more than $3000 in gold and silver. Of this law Cæsar was so ashamed that he denied that it was new legislation, and exhumed an ancient ordinance to prove it. The next step was in response to a clamor for the cancelation of all debts whatsoever. This was in shameless violation of the principles of contract so definitely embodied in Roman jurisprudence, and Cæsar could not yield, but he made concessions. Interest in arrears was struck off, and interest already paid was deducted from the capital loan. This meant an average loss of perhaps 25 per cent to the creditors, which they took with poor enough grace; but the debtors wanted nothing less than 100 per cent, and the riots of Cælius and Dolabella followed. It is not necessary to pursue Cæsar's administrative troubles further. It is enough to point out that the politicians on both sides were capitalizing debt and the discontent arising from debt. Whenever a triumphant politician becomes a statesman —and this has happened but few times in history—his first civil difficulties are invariably with the ambulance-chasers of politics from whose ranks he has emerged.

So varied and fruitful, in the field of government, are the derangements and disillusions incident to debt, both public and private, that without this leverage upon popular passions the politician would have to be a person of constructive and salutary ideas; and this would not only considerably lessen the number of politicians in any state, but might even cost them the respect of their constituencies. Æolus must have had a following that loved wind: it is impossible that a man should pump a bellows solely for his own amusement.

The cultivation by politicians of public debt as a political enterprise, and as a means to preferment and maintenance in office, divides itself into three steps: first, the creation of public debt; second, the sustentation of, and traffic in, the public debt; and last, the extinguishment of public debt. As it would never occur to a politician to plan toward the orderly cancelation of public debt through its payment according to contract, it follows that the extinguishment of external debts will tend toward repudiation; and of internal debt toward what Lablache, in the revolutionary Assembly of France in 1790, called "the *emetic* of great states." This emetic is inflation.

I speak of the *tendency* of politics. A state may neither repudiate nor inflate: but this will be always in spite of politicians, and owing, besides the contractual fidelity of the middle class, to the occurrence of prosperity, to the dictatorial power of a statesman, to the accidental dominance of the creditor class, or some such superior force.

The creation of a public debt by any state or subdivision of government is the result, either of a war or other violent disturbance of commerce, or of the desire to spend freely and yet avoid immediate taxes. Now, there is nothing that the public likes better than to see money spent freely by its government, because everyone hopes to get a share of the disbursement.[5] But there is nothing that the public likes less than taxes. This will seem stupidly paradoxical unless you know that, in spite of the billions of dollars that have been lavished upon education, the voter in a democracy is to this

[5] "When I saw everybody holding out hands," said a prince of the blood in France, in the time of Louis XVI, "I held out my *hat*." In a democracy, too, there are hats: in western America the "ten-gallon" hats of Texas would have made the French prince envious.

very day unable to discern any connection between the expenditures of his government and taxation. The New England town-meeting is often suggested as the most responsive of all democratic forms: yet anyone who has attended a New England town meeting has witnessed the lavish voting of money by the same citizens who grumble about the burden of their taxes.

This being true, the creation of public debt is the opportunity of the politician. Obviously, if he can assure the public of large benefits from the treasury without the penalty of equivalent taxation, his lure is potent. His recipe is simple enough, heaven knows. It is simply: Borrow!

The common man, who has had experience with some of the joys of borrowing and the pains of repayment, might balk at that idea if he conceived the state as being financially comparable to the individual. But he does not. His ideas of the mechanism of government, as well as of large finances, are vague enough; but worse, he thinks of the state as possessing some supra-mundane power which enables it to defy or glide over natural laws. He cannot imagine, for example, a government in bankruptcy, though he can see plenty of individuals in that position. He would not, perhaps, put a strangling debt upon his own children to satisfy his present desire for luxury; but the words "posterity should help to pay" have an impersonal sound. After all, posterity is nobody in particular, and he cannot feel a deep interest in the fortunes of nobody in particular.

In a very real sense, all politicians may be said to buy the votes that elect them to office. The ideal and delightful case is that in which the votes are bought by the impression of

high character, noble aim, and disinterestedness, which has got abroad concerning the candidate. The ugly case, fortunately not common, is that in which money or its direct equivalent is used. The *usual* purchase of votes is made by promises, appealing to the self-interest of the voter, his family, and his neighborhood, and seeming to imply vast improvements in the commonwealth. We thus find, in nearly every election, two or more candidates with a variety of large and probably contradictory promises, dramatically uttered, and without much regard to the possibilities of performance. The most effective promises are those which have to do with procuring financial benefits for the electorate, or ameliorating its hardships. In time of prosperity, therefore, politicians enter into a contest to see which can promise most recklessly more and more of that which is desired: in times of adversity, those are elected who seem to qualify as political surgeons or doctors. Thus it has been said by observers for thousands of years that great states are always in danger of "dying of the doctor."

It follows that, in normal or prosperous times, politicians fulfil their promises, where they recall them at all, by voting great expenditures of money. To vote taxes equivalent to the disbursement would be unpopular. Recourse is had to borrowing, and the creation of a funded debt. The aim is to project the extinguishment of this debt so far into the future that it creates as little tax burden as possible upon the public at the time the money is to be spent. With this money in hand, the politician can secure his position by benefiting dependents, by steering contracts, by stimulating employment, and by translating the money into material structures that

respond to real or fancied needs. He "puts money into circulation," it is said.

The flaw in this perfect happiness derives from the fact that the politician's predecessors have done the same thing, and there is a debt load already being carried. The only really care-free legislator would be he who started with a debtless treasury. In modern times the management of debt becomes important. But the problem of servicing, sinking or refunding debts, and at the same time maintaining a liberal or an increased expenditure of public money, is one that, though it would cause sleepless nights to the business man, only whets the adroitness of the politician. It may even strengthen his position, for he can now play upon the cupidity, fear, and self-interest of both debtor and creditor. The manipulation of public debt is a source of profit to brokerage. An ideal situation, from the point of view of both money-lender and politician, is that in which the government is solvent but needy; just as the physician's income accrues from patients who are always sick but never quite die.

Government debt creates, then, exactly that sort of shadowy corridor where there is neither solvency nor bankruptcy; where the enmeshing of the taxpayer proceeds so slowly that he does not realize it; where the approaching woes of the creditor are hidden from him by operations of apparent safety; and where capital is slowly whittled away on the pretense that the money will return from the labors of a certain posterity. This is a veritable paradise for the politician, who can at this juncture be all things to all men: a creditor with the creditors, a debtor with the debtors, a spender with the employable,

frugal with the taxpayer, and a source of profit to all middlemen.

In the third phase of government debt, the politician must leave this pleasant pasture and make a decision as to where he will stand in the emergency. Such decisions are always painful, and politicians at this point flourish or disappear according to the correctness of their guesses. Sooner or later, all public debt will appear abruptly in the form of taxes, or it will be repudiated. It may take many years to reach this alternative, depending upon a great number of factors that cannot be foreseen. But this alternative is inevitable. All public debt honorably conceived must be a charge upon some imagined condition of the state more prosperous than the one in which the debt is incurred. If the debt be contracted in a time of war, the assumption is that it can be extinguished in a time of peace.[6] If it be contracted in a time of tranquillity and profit, the assumption must be that it will be paid in a time of tranquillity and greater profit. When a state, not at war, borrows against the future, it is gambling that there will be an uninterrupted growth in the wealth that will make payment possible. If this be not so, then the borrowing is dishonest and looks directly at a mulcting of the creditors.

But it is impossible, if we may judge from historical evidence, that any state can enjoy, even if war did not supervene, an unbroken march of progress in production. Nothing is more certain than that the advance from adversity to prosperity, and the decline from prosperity to adversity, are as

[6] That this assumption is usually a subterfuge of politicians may be seen by studying the progress of the British debt. It will be observed that the tendency, immediately after the close of a war, is to reduce the debt; but this is followed by renewed spending.

natural to the state as to any organism we see in life. "I decline," said Plato, "to legislate for any state when it is in prosperity." The character of human beings strengthens in periods of struggle, and declines under security. We may say with absolute assurance, therefore, that any contracts made by states, and particularly those made in respect of money, which go *far into the future* for their performance, will never be performed according to the spirit in which they were made. Either the conditions will have so changed that a later generation regards a repudiation as laudable common sense, or economic shifts will make performance impossible. Public borrowing regards only its own emergencies; it ignores the fact that each generation finds crises of its own.

The quantity of peace-time borrowing upon public credit will generally coincide with that of private borrowing. When individuals are squandering, governments are lavish. Therefore, when debtors are in distress, indebted governments will share the distress. Every relief granted at that time to the individual as debtor, will equally disburden the state. At such a time politicians are busiest. The creditor is made to appear a menace. "The intrusion of the debtor class into the legislature, with their impudent demands for issues to scale down debts, is a familiar spectacle."[7] Parties are no longer Whigs and Tories, Conservatives and Liberals, but creditors and debtors. Governors are elected and turned out as the different interests happen to prevail. The politician is the poor man's friend. If contracts were made, they were scraps of paper. There is talk about human rights; the insolence of property; hungry children; equality in the eyes of God; unfair

[7] Francis A. Walker, *Political Economy*.

distribution of wealth; the need for a new deal. It all aims at one thing, and only one—the spoliation of the creditor. The politicians have come into their own at last. Public debt, which they have fostered and potted and repotted and sprinkled with so much diligence, has at last flowered into—a crisis.

In this drive by political chasseurs, it is necessary to conceal from the small capitalist, who is the majority in countries with a great middle class, the fact that he is a capitalist. This is not hard to do, because this man hardly ever identifies himself with the capitalist position. He may possess money in bank, insurance policies, or stock or bonds, and these even to a considerable amount: yet he considers a "capitalist" to be a person of inordinate riches in control of great business, a person of dark intentions and questionable morality.

Also, the small capitalist is usually a nullity in politics. Except when his attention is whipped, he looks upon politics as a mystery that he had better leave to others to handle. Indeed, the close application to his business, and his disposition not to attend to the affairs of others, is what makes him what he is —a small capitalist.

The collapse of a monarchy, due to state bankruptcy, may result in parliamentary government; but the collapse of a democracy from the same cause indicates a dictatorship. And he who aspires to supreme power[8] in a time of stress can

[8] "An exorbitant authority suddenly conferred upon a citizen in a republic produces a monarchy or something more than a monarchy. In the latter, the laws have provided for, or in some measure adapted themselves to, the constitution; the principle of government checks the monarch; but in a republic where a private citizen has obtained an exorbitant power, the abuse of this power is much greater, because the laws foresaw it not, and consequently made no provision against it." —MONTESQUIEU.

take no straighter course toward his design than to convince the distressed citizens that he will cancel or alleviate debts, either by rescript, or by clipping the coinage, or by the issue of irredeemable paper, or some other juggling with the currency standard.

The astute politician, however, will not make the mistake of being premature. In a great state in prosperity, things are never as good as they seem; on the other hand, in adversity they are never as bad as they seem. This is why contemporary prediction is nearly always wrong. Long after a tottering state should have fallen, it is propped by the patient, law-abiding, submerged, industrious and thrifty middle class, and by the mere *habit* of existing. The heart continues resolutely to beat. Those who harvested the fruits of the civil wars were not Caius Cæsar, Mirabeau and Kerensky, but Octavius, Bonaparte and—a giant yet to appear.

XVIII

DEBT AND WAR

> The Athenians have allies as numerous as our own, and allies that pay tribute, and war is a matter not so much of arms as of money, which makes arms of use. . . . First, then, let us provide money.
>
> *King Archidamus of Lacedæmon, at the outbreak of the Peloponnesian War*

He that writes of war must first make up his mind whether he is going to write sentimentally or realistically, or half-sentimentally and half-realistically. If the approach is to be sentimental, the exercise will be agreeable and the applause instinctive, as there are few persons in the world who favor having their sons torn to pieces with high explosives or their property blasted out of existence. If the question be circulated: "Whether it is desirable that all people be free, prosperous and happy?" the poll will show an overwhelming affirmative: but it must be realized that after the vote has been counted, things remain practically as they were before. The succeeding question: "What are *you* willing to sacrifice to bring about this condition of felicity?" will reveal a smaller number of voters and a baffling variety of replies, some of them evasive.

The candid thinker, whatever he feels about war, is likely to regard Leagues of Nations, World Courts, International Conferences, and Tribunals with disdain and suspicion. These may seem to him only too obviously a new device for the performance of diplomacies, where, with sincere and benev-

olent men and women acting as decoys,[1] and with a window-dressing of brotherhood, the old pot-hunting, directed from the chancelleries of great states, goes on. The operations of Geneva indicate clearly the truth of the statement of Dr. L. V. Birck, that "only small states are compelled to show moral restraint in the dealings with neighbors." A peace league which roars its demands upon Paraguay and swallows the contumacy of Japan (I pass no judgment upon the merits of the quarrels of either nation) can only increase the cynicism of mankind. The great nations go to Leagues and Courts for the purpose of picking up something profitable inexpensively and by forensic acuteness alone; if the harvest looks too lean, they take a holiday from disquisitions, declarations and agenda, and go home to see what a little threat of powder and steel will effect.[2]

The economists who prove by mathematics that modern war can profit nobody are half-realistic and half-sentimental. Their sentimentality lies in their fondness for their conclusions. They are passionate about their opinions. They may be right or wrong, or partly right and partly wrong; but at any rate, even if they are right, and nobody acts upon their sagacity, it is rather sterile labor. War may cease to exist when the con-

1 "Those who regard the task of the Carnegie Endowment for International Peace as hopeless are those who believe that reason and good morals can never rule the world, which must always be given over to selfishness, to gain-seeking and to the desire to dominate."—NICHOLAS MURRAY BUTLER, *Director.* I do not know whether "reason and good morals" will ever dominate the world, but I do know that Socrates was a man of both reason and good morals, and a brave soldier; and that Socrates, with his edged reasoning, would have blown holes through the argument that these virtues exist in peace any more than war, unless we mean by *peace* something very different from the usual understanding of that word.

2 "Let us rather look upon the League of Nations as a club. It may be a club in the high sense of the word, where great and noble problems are discussed. . . . At the same time the club should not be run at too high a cost."—STEPHANE LAUZANNE, *English Review*, 1923.

viction is implicit with all great states that nothing, either in the present or the future, is to be gained by war. But this conclusion will never be the result of the teachings of political science or economy. It can be a "discovery" akin to the admission, after some thousands of years of trial and error, that slave labor, compared with free labor, is uneconomic. The philosophers suspected this very early; and curiously enough, they comprehended it without being at all sentimental about the *morality* of slavery.

The arguments against war are really only of two classes: first, that war is immoral and too terrible, and worse than any conceivable condition of peace could be. This view, without meaning to reflect unfavorably upon it, we must call the sentimental view.

The second view is that, in modern complex economy, war can profit nobody, and can only tend to impoverish the whole community of nations. This is the economic view, in which the political must be comprised.

As war is the natural state of man, and peace is an artifice of civilization, it is clear that the way to maintain peace is to convince the majority of men that peace is permanently more profitable *for them* than war. It is not sufficient to persuade the people of one or a dozen countries that this is so; the conviction must be international and implicit. But the rewards of peace, when they exist, are not so evenly distributed as this, nor is there the slightest disposition on the part of those favored by peace conditions to have them so: of which statement the single instance of "protective" import tariffs should be sufficient proof.

In the partition of the world's surface, certain nations have

succeeded in occupying the most productive and valuable land; certain nations have shown the greatest facility for exploiting those natural resources. There are no further desirable areas lying unclaimed. We thus have arrived at a theoretical condition where the most powerful and prosperous nations should desire peace rather than war, because peace maintains a status by which they are, if not satisfied, at least especially benefited. This leaves the less-favored and smaller nations in tutelage: they are permitted to watch the banquet from the gallery, and after the feast there will be crumbs for them, if they are well-mannered: they are not to presume. So long as the nations in pupilage are content with this situation, all goes well. Occasionally one of them, like Japan, becomes ambitious; becomes prolific both in its progeny and enterprises; yearns to expand, and babbles of empire. How shall it expand? At the expense of vested interests? Not if the vested interests have anything to say about it. It cannot occupy, it can only conquer. So inspired, then, can it be fairly said of the Japanese that peace is as profitable as a victorious war would be?

How do the pacific economists judge what is profitable in such a case? Are they thinking of the short turn or the long run? A war of conquest may cost more than the present value of the annexed territory. It may result in present impoverishment of the victor and a burden upon its production for some years. Still, it might prove profitable after a longer period. For a relatively small expense in man-power and in money, the United States acquired by the Mexican War a vast expanse of contiguous acreage, which has since shown its desirability beyond question. For a far greater expenditure, in the war with Spain, it came into possession of a distressing assort-

ment of burdensome island trinkets, the exploitation of which has disrupted the internal economy of the country more than a little. The assessment of profit or loss in war would seem to be a matter for the future to discover.

If we shall be permitted to take a realistic, but not pessimistic, view of the phenomenon of war, we shall perhaps find it useful to discover what reasons are adequate, and what reasons inadequate, for this adventure which, in modern times, is vastly expensive; it being assumed that the basic purpose of war must be the security of a nation, present and future. It goes without saying that it would be unintelligent to make war for any project which can be contrived by other pressure, such as skilful diplomacy, threats—economic or military—or penetration.

There are two reasons for war which have always seemed *valid:* first, the desire for more territory to sustain a growing population and to gratify the longing for extended power, or empire spirit; second, the need of protecting the trade routes and life-lines of the nation along which its commercial facilities must come, and perhaps even its food. The first seems to be offensive, and the second, defensive; but it is hard to say where one position begins and the other ends. It is usually the belief of the people that in an offensive campaign they are really defending their right to growth and protecting their lines of advance.

The following reasons for wars may be classed as *doubtful:*

(a) Wars to win new trade opportunities and economic preferences. Such advantages are likely to prove illusory, unless the conqueror has the means actually to occupy and colonize the new source of markets.

(b) Wars to restrain distant colonies that desire autonomy. After her bitter experience in the American Revolution, Great Britain made no further effort in this direction. And even at the time of the Revolution there was a powerful group in England that deplored the unfruitful adventure.

(c) Wars to divert a rebellious spirit at home, by raising the issue of patriotism. These wars are scarcely likely to prove anything but disasters, since they do not touch the source of the disaffection, which returns with redoubled force after the glory has waned and the bills have to be paid from taxation.

(d) Wars of coalition, in which a nation sees a possible opportunity to get benefits at low cost by joining in a war which does not directly threaten its security. This must be a fool's venture, nearly always, unless the nation is situated at a great distance from the scene of combat, as was the case of Japan at the time of the World War, and can operate in its own sphere without restraint or fear of attack.

Wars of *no value whatever,* which must be calamitous whatever the outcome, are of the following sorts:

(a) Wars to make the world safe for democracy, or safe for limited monarchy, or safe for fascism, or safe for any other concept of government. This is sheer absurdity, because an equally good case could be made for war to make the world safe *from* any of these.

(b) Wars to end war, or any similar ethical proposition; or religious crusades of any kind whatsoever.

(c) Wars to force the salute of a flag; to rescue missionaries from brigands; to protect the dignity of a state; to compel the payment of indemnity; to collect any kind of public or private debts against defaulters; to increase the circulation, and there-

fore advertising revenues, of newspapers and other periodicals; to satisfy the craving of orators for exhibition of their talents; and any similar nonsense.

(d) Wars to push the sale of something, whether of munitions, automobiles, or wheat, where the beneficiaries will be a minor number of the nation's population, and the profits limited to a few pockets.

This is not intended to be a discussion of war as political or military art, so these slight comments merely aim to give a general outline of the provenance of wars and their possible justifications. It is here assumed, however, that no nation will be so mad as to venture upon any war without (a) the feeling of certainty that the *leanest favorable ultimate result* will be worth what it costs; and (b) that it has the physical means, including money, to insure a reasonable expectation of an outcome favorable to that nation.

The question of the "right" or "justice" of any war need not be considered. Every nation keeps a full stock of the evidence of the rectitude of all its motives.

The best possible of all reasons why a nation should not contemplate war except after the shrewdest deliberation, or in extreme resort, is that, from this time forward, the defeated power is likely to be reduced to a complete state of political and economic vassalage; in short, to lose its identity as a nation. The equivocal doctrine, or the mutual jealousies of the victorious Allies of 1918, which left Germany theoretically stripped of military power, but actually able to recuperate on a magnificent scale, is now seen to be the seed of another European struggle, at best to be only deferred a few years. The Germans were quite within their "rights" to take ad-

vantage of the indecision of their conquerors. It is not likely that this mistake will be made after the next war: it will be woe indeed to the vanquished. It is now seen that it is not enough to deprive an ambitious, resourceful and industrious nation of its weapons after its defeat: the nation must be obliterated and dispersed. Cato's cruel persistence against Carthage was justified: it was a tribute to the dangerous merits of the Phœnician colony.

Every nation that has a disordered economy is *ipso facto* a candidate for a foolish war adventure. Where estates are "eaten up by usury, where credit is shaken, and war would be a positive immediate gain to many persons,"[3] as Lucan said of the condition of Rome before the Civil War, it is not hard for the bagmen of Mars to gain a favorable hearing. The constant economic state of Middle Europe has been for years such that the margin of happiness of the average individual is so slight as to make the prospect of war hardly more terrible than the poor fare of peace. The single source of relief of that condition would be a concerted effort of the richer powers to raise the standard of living among such peoples. They could do this only by temporarily lowering their own. Can it be imagined that a "peace league" will deliberately contrive such a result?

There are powerful persons and groups within each state that view war as they would regard any piece of business: they see profit in it for themselves. They are not so numerous or dangerous as is sometimes advertised. They could not prevail at all where the ground had not been plowed and har-

[3] "Hinc usura vorax, rapidumque in tempore fœnus,
Hinc concussa fides, et multis utile bellum."

rowed for the sowing. The fertility is supplied by the levity of the whole people, partly due to lack of imagination, to ignorance of history and political science, but *chiefly due to the habit of preparing for, and waging wars, on credit.* Every effort is made by modern government to conceal from the people the fact that they are paying for a past, a present, or a future war. War is made to look *inexpensive:* wherever it can additionally be made to look attractive, it will surely arrive.

The earliest great war-makers maintained a simple policy. Offensive campaigns of loot or conquest were carefully planned long in advance. A war chest was assembled, and depots filled with supplies. "Philip of Macedon, through the profits from mines, customs, and a flourishing agriculture, replenished his treasury and arsenals. When the war began there was in the Macedonian treasury enough to pay the existing army and ten thousand hired troops for ten years, and there were in the public magazines stores of grain (27 million bushels) for as long, and arms for an army three times the existing ones."[4] If the campaigns were unsuccessful, the general fell back upon his home positions, to make another attempt later. Victories were a certain source of meeting part of the expenses of the war, with a possible large profit in metals, land, slaves, furniture and objects of art. It is clear from Pliny's letter (LXII) to Trajan, that the great Roman emperor prudently kept large sums of money at interest in the provinces as both a military and economic insurance.

The Athenian democracy, on the other hand, put together a treasure on the Acropolis, intended to be for the most part a "defensive" purse. This war chest may have amounted at

[4] Mommsen.

most to ten thousand talents; at the outbreak of the Peloponnesian War there were certainly 6000 talents of coined silver, and Pericles, before his death in the early years of that struggle, exacted a promise from his fellow citizens that they would set aside 1000 of these talents to be touched only in a case of the last resort—which came at last with dismal consequences!

At the revolt of Mitylene, nearly five thousand talents had been spent, and then began some harsh taxation to meet the needs of the fleet. In Pericles' lifetime, this taxation would have been met by the Athenians in a far different spirit from that in which it was greeted with a man like Cleon in the ascendant. Had there been possiblities of borrowing, the Athenians would have created a public debt then and there: might even have learned to consecrate it as a national blessing, and print paper money against it. There was no source for borrowing, so a people who did not relish paying for a war out of present taxation did the next worst thing. They doubled the tribute[5] of the island cities, from the Black Sea to Sardinia. It was a fatal step of policy: it was truly worse than the later wretched military failure; for though it is bad enough to play the fool in the warlike art, it is worse policy to lose the faith of your own allies. "In the autumn of this year Athens broke the Charter of her Empire—the contract drawn up two generations before by Aristides the Just between Athens and her allies."[6] The defeat of Nicias and his bungling associates was already foreshadowed. A changed spirit was evident in Athens. It was the new thought that *some-*

[5] The Greeks were experts in the use of impostor words. They already were calling tributes by the delicate name of "customs."

[6] A. E. Zimmern, *The Greek Commonwealth.*

body else ought to pay for *their* war. The charge could not be thrust upon posterity; it could not appear as "anticipated taxes"; it could not be cried up as a novel increase of commercial facility: consequently it was assessed to the helpless islanders. It was a step short of fighting on borrowed money.

In the Middle Ages, with their insecure mechanics of organization, the overlords found the financing of their wars awkward and uncertain. Mercenary troops had to be paid in cash, and the royal treasuries were seldom capable of standing much strain. To meet extraordinary disbursement, when forced loans and expropriations did not suffice and the springs of taxation had been drawn dry, the rulers turned to such lenders as they could find. Sometimes lands were pledged; sometimes cities; often jewels and the crown ornaments. The lender was sometimes inspired by friendship or partiality, but oftener it was a pawnbroking arrangement, with excessive interest, justified not only by the fragile faith of the borrower, but by the chance of failure of his project. Insensibly the financing of war by professional usurers came into existence. From the rise of the Grimaldi in the fifteenth century, down through the long line of Sforzas, Strozzi, Medicis, Friscobaldi, Fuggers and Welsers, the business of gambling upon war ventures became a good one, though there was always the chance that years of success would be obliterated by one great battle disaster or by the repudiation of a swindler.

The captains of mercenaries required spot cash for the services of their hireling troops, and it was convenient for the king to be able to show that his backer was a great pawnbroking goldsmith. So far as I know, the bankers played no sentimental favorites, though they did follow the fortunes of

some chosen dynasty, usually by necessity, for once they were involved, they had to keep up a supply of funds to rescue the investment. While it would be extreme to say that these financiers of carnage were responsible for all the wars that swept back and forth across Europe, it must be clear that the system of financing war upon loans multiplied the number of struggles. How could it be otherwise? Princes who were otherwise unable to make an offensive move against their neighbors came straight from the counting houses with eager faces, and gave the word to prepare for action: the money was in hand. Where their subjects would have been rebellious if the money had been raised by more tax squeezes, the very fact that powerful speculators had lent funds to their monarch filled their subjects with pride and hope. So, too, struggles were prolonged by credit-fighting long after a pay-as-you-go policy would have ordered an end. Of course, the source of war funds was not wholly external, and there were patriotic motives in the lending of some of the richer merchants, of the city corporations, and lesser nobility. But in the early use of this system which was to flower into the thing now called "public credit," we may clearly discern the principles that are everlasting: government financing on the basis of deceiving the taxpayer as to the destruction of his capital resources; and the profit from the flotation of loans upon the credit of government, whether autocratic or parliamentary.

When the individual borrows in good faith, he puts something in pawn. Even if only his word is the pledge, then his character and person are no longer his own until the contract is fulfilled. Modern financing tends to blind the individual to this very obvious fact, but the fact remains, and will claim

victims. Now, the government, as borrower, is in no different position. The medieval kings pledged their jewels and trappings when their word was nowhere acceptable, or they pledged their subjects even to actual distraint upon the body, or they pledged their thriving towns with all the movables. Upon the contraction of a loan, a government is not a free government in the sense it was before the loan was made. It cannot be, regardless of whether the borrowing was external or from its own citizens. Debt exercises a political and social force in polity, exactly as the actions of the individual are constrained and directed by the holders of his pledges. Interior public debt creates a creditor party, whose interests are special, and must necessarily divert the course of legislation from that which ordinarily views only common welfare. Exterior public debt moves unfailingly toward alliances and subsidies on one hand, and jealousies and quarrels on the other. The debtholders are not concerned with morality in government; merely with that expediency which insures the safety of, and the return upon, their investment.

Napoleon Bonaparte was one of those astute rulers to remark the clog upon liberty of action caused by public debt. "While I live," he said, "I will emit no paper," and he meant both bonds and paper money. He was absolutely correct, as empire-builder, in levying part of the cost of his wars upon the occupied territory and forcing contributions from his wilted antagonists; for the rest, he taxed until the country bled. His military policy of course could in the end be justified only by a consolidation of conquests and a subsequent profitable peace, and this Napoleon did not reach; so the money had to be paid finally by the French in the form of indemnities. Bad

as that was, no other financial policy would have been as sound.

It is probably no longer possible for great financial houses to humiliate government borrowers, though they may vastly affect their policies. The Lord of the Universe, Charles V, when he was behindhand with his creditors, the Fuggers, got an abusive letter from the bankers, reminding him that he was merely a creature of their invention, after all: they told him they had made him with their money, and the natural inference was that they could also break him with their money. He swallowed this insult as it were a strawberry: he who strutted his empire like a demigod. In 1559 Philip II owed these same Fuggers four million florins, and the hand of the financier held the wrist of the monarch when he wrote. In the end, all these powerful houses lost money, for they were bound to gamble on losing causes, and they had to meet fraudulent bankruptcies. When the Rothschild house rose, conditions had changed greatly; financing kings and nations was still speculative, but a business morality had been constructed, and the investments had new safeguards.

When a modern nation goes to war, one of two things is true: either the people have a deep and practically unanimous belief in the necessity for the struggle—a sense that it is in defense of their national position or a step forward in their march toward greater felicity—or they are swept into the adventure, only half-convinced, only half-informed, by the will of their leading men. In the first case, the people will bear hardships in the form of taxation without much complaint: they see clearly the reasons for the sacrifice; indeed, they impose it upon themselves. In the second instance, any considerable taxation creates rebellion. It places the people sharply on

notice that they are engaged in a project that lacks the garment of inevitability, but is just as costly as though they believed in it. In such a case modern government always turns to borrowing "against the future," as it is called—though this phrase markets a delusion. There is much fine rant about "saving the country" and letting "a grateful posterity share part of the expense." It is advertised that "patriotism demands buying bonds." Professor Birck has squelched that absurdity sufficiently by remarking: "Patriotism at 5 per cent interest and a *disagio* of 4 per cent is humbug. If patriotism is strong enough, a tax is the suitable measure." How a man who lends money at interest to a government—his own—that he regards as the soundest debtor possible, can be given the name of "patriot" on the strength of that sacrifice, is more than I can fathom. The patriots would rather seem to be those—if they understand the operation that is taking place—who pledge themselves to repay the loan with interest when *they* hold none of this desirable paper.

That "posterity" does not intend to meet these bills drawn upon the infants and the unborn, will be made clear in another chapter. But, quite aside from that, the notion that the cost of a war can be passed along to a happier moment by issuing paper promises is ridiculous in itself. War means the destruction, and rapid disappearance, of existing wealth, which, even granting the feverish impulse to produce, can be only in part replaced during the period. The state becomes a competitor for capital which would ordinarily be used for the increase of wealth. A ficticious capital emerges from the emissions of promises: this only makes worse the burden of the present, for it results in a decrease of real wages—a form of taxation upon

those who manage to escape the more direct kinds. The generation engaged in a war waged upon credit have the unusual pleasure of paying twice for the same thing; they pay taxes caused by the increase in prices caused by the borrowing, and at the same time pay taxes necessary for the servicing of the loans. They are usually innocent of the fact that they are paying anything: because it is being represented to them that they are pledging their national credit to avoid taxation!

Consider the case of a nation that financed its wars through taxation alone; and not only that, but financed its preparations for war in the same way. It is absurd to say that the conduct of the war would be less competent than where the funds were raised by internal loans, for the nation could in any case use up no more than it possesses of consumable wealth. To resort to internal loans is merely to permit the lending part of the population to employ its capital at interest, at the expense of the whole taxpaying public. To raise money abroad, of course, would supply, not money, for money would be of no explosive force, nor could soldiers eat it; it really means borrowing goods, which undeniably would be serviceable. But if the intent is to repay the loan, the purely economic result is the same as though the money were raised at home. The political result, and the effect upon the international commercial relations to come, could be calamitous: we are witnessing now the utter dislocation of economic forces, the poverty, the strained and bitter neighbor relations, the forced liquidation of an unnatural condition, resulting from the borrowings of Europe in America during and after the World War. Nor can there be any hope, in these days, of assessing the cost of the war to the vanquished, and so extinguishing the debts that have

been created. Bismarck's bill against France was the last major feat of that kind. The modern way, which will be used wherever capital is rash or immoral enough to finance a war in which it has no virtuous business, is to assess the cost of the war *to the creditors of both victorious and vanquished;* and though this implies a repudiation of promises, perhaps in the end it will result in correcting the manners of "idle" capital.

What would be the effect upon the war spirit, so easily ignited and fanned, if the government, resorting to taxation alone for its preparations, were to address its citizens thus:

> John Jones, Esquire: This is to inform you that your government is making plans for a war. This costs money. So far your government has spent (amount named). Your share of this is (amount named). You will call upon your city treasurer before (date named) and pay your share in cash. Failure to do this will result in fine or imprisonment.

This might make Mr. Jones wonder whether the war of which he has been talking flamboyantly with his friends is exactly as necessary and desirable as he had thought. But, suppose Mr. Jones' heart and soul are sincerely committed to the desirability of the war. Then he will not demur. He will pay his scot and feel properly a patriot. If the other Joneses and Smiths feel the same way about it, war ensues.

From this moment a virtuous government might take Mr. Jones and his concitizens into actual instead of remote partnership in the war. Mr. Jones might receive, every Saturday morning, a letter like this:

> John Jones, Esquire: This is to inform you that *your* war is progressing favorably. *Your* troops have fallen back on the south-

eastern sector about ten miles, but this is only a strategic retreat, so do not be alarmed. *Your* government has spent to date on *your* war, *your* money to the total sum of (amount named). We find that your contribution so far has reached the sum of (amount named). We wish we could tell you that no more money will be required, but the fact is just the contrary. We must increase the amount of your contribution this week to $7.75. Pay to your town clerk. Fail not at your peril!

John Jones would now feel that he had a war on his hands. If he were a man of any vanity, he could truly brag that he was financing a war, and that is no small thing for a small man. On the other hand, after a year or two of these payments, he might find it irksome. It would cramp his normal spending style. He might find, on reappraisal of all the facts, that he did not hate the nation he was fighting nearly as much as he had thought. The fact that there was no inflation caused by immense borrowings, to throw dust in his eyes about his wealth, would show him how absurd he was, a couple years ago, when he mouthed the remark: "What we need to make business good is a brisk war." He would see that war is deflation; and that the inflation that comes with wars-on-credit is merely deferred deflation. He would see a great many other valuable things to which he is now blinded because he is told that posterity will pay for *his* war.

But if these free citizens, in spite of such forced contributions, still favor their war, then the only conclusion must be that the war is a valid war; that it responds to a deep purpose and a need within the commonwealth; that it is a war that cannot be escaped. The leagues and conferences, treaties and protocols will not avail against a war spirit like that.

If a government decides upon war, it owes these duties to its people in addition to skilful military leadership: that it will not delude the citizen as to his true financial position; that it will be as economical as war conditions permit; that it will interfere with the normal productive lives of the noncombatants as little as possible, though the least will be a great deal, to be sure; that it will soberly envisage the post-war period, and prepare, even when at war, for the always violent transition to peace after victory. If the result is a defeat, of course the aftermath will be in other hands for decision. These provisions are not too much to ask of a government if it casts for war; and each one of these provisions is made impossible by the system of fighting on paper credit. A cash war comes to an end with the signing of a peace treaty; a credit war begins a new phase at that time: the battle of civil or internal readjustment. It is inevitable that, facing the burden of a mountainous public debt, the singing, optimistic, communal fellowship of wartime should be replaced by gloomy suspicions, charges, countercharges, vilifications, inquiries, and debtor-rebellions. And there is a new enemy—the creditor.

Thomas Nixon Carver deals soundly with some of these points. "The great mistake that every government has made up to the present time, in its efforts to finance a war," he says, "is that it has hesitated to tax the people. The only sound method of financing a war is to tax the people, and tax them to the bone. Unless it has a war-chest which it can open, or unless it issues a lot of new currency, it must get its money from its citizens, in the form either of loans or taxes." [7]

[7] *Principles of Political Economy.*

But, despite the plainness of the foregoing truths which seem subject to not more than a few minor points of contradiction, it is not in the political interest of the leaders of a government ever to reveal them to the people. The leaders may be entirely sincere in thinking a war advisable; in which case they want the people to know as little about the facts as possible until an overt act makes the struggle unavoidable; and following this, they feel it necessary, in order to prosecute the war, to make it seem inexpensive and even profitable. The use of public credit instead of taxes furnishes this opiate, and so may instigate a stupid war or prolong an unprofitable one.

How can one help suspecting the motives of leagues to preserve peace, when the delegates have left at home, active, aggressive and unchallenged, all the ingredients of modern war, including the most dangerous illusion: that it is cheap? The climate on the shores of Lake Léman is bland and salutary, but a change of climate is not a change of mind or heart.

XIX

DOES POSTERITY PAY?

> I did indeed, years ago, prove that if we returned to cash payments without a reduction of the debt, and without a *rectifying of contracts*, the present race of farmers must be ruined.
>
> WILLIAM COBBETT, in *Rural Rides*

A YOUNG MAN, presumably a college undergraduate, wrote a letter to a newspaper the other day, expressing great perturbation about the rate of increase of the public debts. He concluded his prudent reflections with the bitter comment that the heedless spenders of this generation were creating a huge burden which "posterity will have to pay."

I deeply sympathize with the anxiety of this young man. Other young men and women are revolving the same ideas. Even if their conclusions are inaccurate, as they must be if they depend upon their instruction in that slightly tarnished "science" known as "political economy," it is still heartening to know that they are thinking at all. So much cannot be said for all their elders. But the immature need not be racked about this prospect. Posterity does not pay. It never did and never will.

Oh, yes; in a very limited sense, perhaps it does. Some of the stupidities of each generation remain as hurdles for the successors. The sins of the fathers, as was known long ago, must be expiated. But I assume that what our young man has in mind is that public debts continue to pile up across the

years, mounting to greater and still greater totals, and that these debts will sooner or later be paid out if the bone and sinew of the heirs. It is not so. If he will stop and think a moment, he will realize that it cannot be so. If all the unpaid public debt of all the nations that ever created a public debt were at this moment still active, drawing interest and awaiting settlement by "posterity," the total amount would be so absurd as to need no other comment except boisterous laughter.

Let me present a little syllogism which, though probably not logically flawless, ought to indicate well enough what I have in mind:

1. *We* are posterity.
2. We do not pay.

∴ Posterity does not pay.

It is obvious that *we,* the present generation, are somebody's posterity. Our progenitors left *us* a rather handsome debt, a public debt composed of national, state, county and municipal obligations. No doubt some of our forbears said it was a shame to leave so much debt for *their* posterity—meaning us. But those who had the political numbers necessary to create the situation thought otherwise. They said a number of things about it. Some of them said that good, heavy taxation is always a spur to initiative and industry. That there is a spark of truth in the statement cannot be denied. Well, the next generation ought not to suffer from lack of this provocation to labor.

Others said that since they were spending the money (borrowing it first) for improvements and enterprises that would be lasting benefits, it was only fair that their children and grandchildren should defray *some* of the charges. What they

really meant was that the children and grandchildren should inherit *most* of the charges: but it is never good form to declare exactly what you mean in such delicate matters. And it is interesting to note that those who create great public debts, on the ground that posterity will enjoy the fruits of the expenditures, never think it necessary to wait until posterity can exercise its own choice as to what benefits it prefers to enjoy.

Very well, then, here we are! We are posterity. Do we pay? In a limited way, we do. But it is an extremely limited way. What we do, for the best part, is to keep the service upon the debts from default—and this, most fortunately, we are sometimes able to do by reason of the constantly increasing facilities of production, and by modern deftness in the use of credit in commerce. But, further than that, we are naturally intent upon spending a little money ourselves. Since it has never occurred to any large nation since antiquity (unless it was in the reign of Henry VII of England) to accumulate a treasure against a rainy day, it follows that we employ the same methods as our forefathers. We borrow against the payment by our posterity. You may be utterly certain that if our posterity are not estopped in some singular way, they will rely upon *their* posterity to settle. And so it goes.

Now, mind you, I am not scolding the young letter writer for being naïve. He is in excellent company. This tenderness for posterity has been the care of bigger men than he. Of national debt no less a giant than Napoleon Bonaparte said: "It is immoral and destructive, silently undermining the basis of the state; it delivers the present generation to the execration of posterity." And John Ruskin, with his usual brilliant vehe-

mence, remarked: "A nation invariably appeases its conscience with respect to an unjustified expense, by meeting it with borrowed funds; expresses its repentance of a foolish piece of business by letting its tradesmen wait for their money; and always leaves its descendants to pay for the work which will be of least advantage to them." Literature is bulging with statements of this kind. Even those who were most alarmed at the prodigality of their political masters, have somehow seemed to believe implicitly that posterity would have to pay.

To understand why this pathetic faith in a definite and complete payment of public debts by posterity has lasted through the years, it is requisite to appreciate how the human mind is captivated by engaging fallacies, especially in the field of economics. I say, especially in economics, because since this so-called science is so inexact, and so subject to an alteration of the conditions on which it is built, there is an unusually fertile soil for fallacies to infest. If you will remember how Cambon, one of the greatest financial minds in France in 1793, and unquestionably a man of perfect sincerity, was able to convince himself that the issue of *assignats* was sound, you will not need any further illustration of what I mean. But if there are any pessimists who desire a lush pasture of human frailties in which to browse and gloat, they need look no farther than economics.

Now, the particular fallacy of which I speak—that which presupposes the final payment of public debt by some posterity or succession of posterities—seems to belong to what I shall call the "non-violence" fallacy. I cheerfully agree that this is not a very good term, but I can think of no better. The fallacy springs from the inability or unwillingness of man to conceive

that a carefully wrought theory of his own can be destroyed by a relatively unimportant, or whimsical, or unethical circumstance. Yet men know perfectly well that a tiny female mosquito, loaded with germs, can topple the most perfect and healthy specimen of manhood. And the fallacy is abetted by the eagerness of enthusiastic minds to believe that their ecstasy is shared by their contemporaries and will be later the delight of their children.

Consider a simple form of this fallacy, the chain letter. Some zealot conceives the idea that if he writes a letter to ten friends, ordering each of them, under penalty of incurring a curse if they do not obey, to write to ten friends, and those to ten others, and so on—the whole world will soon be acquainted with the vast philanthropy he wishes to publish. Theoretically it would, and swiftly, too. Actually it will not. In his excitement, the circulator of the chain letter has succumbed to the "non-violence" fallacy. He failed to realize that human beings do not act conformably. They do not even respond to self-interest. They are passionate and rebellious. The chain-letter instigator did not consider that there were people who so shrink from writing ten letters of any kind that they would go to hell first. He did not count on the violences of his scheme, arising from those who merely laughed, those who swore horribly, those who put the letter in their pocket and have not yet unloaded the pocket, those who pigeonhole all important documents, and those who used the letter for wrapping a sardine sandwich.

I will give a nobler instance of this "non-violence" fallacy. When Benjamin Franklin died in 1790, he left one thousand pounds sterling to the City of Boston, and another thousand

to the City of Philadelphia, to be let out at interest to young married artificers who had served their apprenticeships honorably and wished to set up in business. It was a charming legacy from a man who had himself struggled as a journeyman without capital. The principal was to remain intact, in each case, for one hundred years (till 1890), when it would amount, by Franklin's calculation, to 131,000 pounds sterling. One hundred thousand pounds of this amount could then be spent on public works, and the remaining 31,000 pounds would continue at interest for another hundred years. At the end of the second century of the trust (1990) "the sum will be 4,061,000 pounds sterling, of which I leave," etc., etc. I owe it to the memory of the sage Franklin to add that he injected the words, "if no unfortunate accident has prevented the operation."

Franklin was half-conscious of this fallacy, but not wholly. Had he been enough struck by it, he would have left no such trust on such terms—unless (and this is possible because he was a humorist) he knew it wouldn't work, but thought he might, from some other world, peer down here and enjoy the "operation" when it turned refractory.

In the administration of these Franklin trusts, I have never heard imputed the slightest dishonesty. Yet in 1873 John Bigelow wrote: "These bequests have failed to realize the hopes of the testator." The Boston trust had operated more successfully than that in Philadelphia, which showed a capital of something more than $53,000. If anyone shall believe that in the year 1990 the trustees in either case will have the disposal of the equivalent of four millions sterling, I suggest that he be crowned as the world's greatest optimist. The mathe-

maticians will tell you what would be the result today if Socrates had put ten dollars at interest, compounded annually at 4 per cent. But when the mathematicians have concluded their computation, I shall peevishly wreck the whole structure by remarking that financial violences would have reduced the Socrates fund to zero long before the Christian era began.

The modern political economist jeers at the simplicity of the Duke of Orléans, Regent for Louis XV, in naïvely accepting the scheme of that great projector and faro-bank expert, John Law. He will point out that Law himself probably, and the Duke and Abbé Dubois certainly, were the victims of a great fallacy about money. This fallacy was: that money is the cause of wealth, instead of being the effect of wealth. Before Law successfully introduced his mad ideas in France, he had already tried to interest the government of Scotland. The Scotch declined; not because they pretended to know what the fallacy was, or even that there was a fallacy, but because they knew there must be a catch in it somewhere. It sounded too good to be true. There is something about a diet of oatmeal that makes one disbelieve in financial magic. The Scotch will be the last people in the world to tinker with their currency.

The modern economist is right. Law was beguiled by a fallacy. Wealth does not come from money. Money is not even wealth. Money is debt, based on existing wealth. But it is the fortune of political economy, and those who expound it, to wriggle out of one fallacy trap only to step into another. Political economy, whether one calls it a science or not, subsists upon definition. If its definitions are unsound, there is nothing left of it; for nothing is more obvious than that

political economy cannot predict concrete results, and can only faintly indicate tendencies. The men who have put together the greatest fortunes, and achieved the greatest exploitations, have never been impeded by any definitions of the rules governing the creation of wealth. Instead of spelling w-i-n-d-e-r, they washed it.

In 1921 the Equitable Trust Company of New York issued a pamphlet, written by the economist Prof. E. R. A. Seligman, called *Currency Inflation and Public Debts.* There is much matter of great value in this pamphlet, but on the very first page there occurs a definition which conceals a fallacy quite as dangerous in its way as the fallacy about money of John Law. It hides the error that makes it possible for government to go on borrowing long after the individual, in a similar situation, would be an advertised insolvent. Professor Seligman says:

"Public debts are in reality nothing but *anticipated taxes.*"

Here is our old friend, the "non-violence" fallacy, parading in a new uniform! Consider how the investor, with money to lend, is snared by this plausible thought!—that the government to which he lends, and whose promissory paper in some form he takes, is to be impregnably solvent because it is merely borrowing in advance of some taxes which certainly will be collected. As it stands, the idea naturally associates itself with the most innocent borrowing of a municipality, signing a note at the bank in August for a loan which will be repaid as soon as the taxes fall due in December. That is the usual connotation of borrowing "in tax anticipation."

But that is not the chief difficulty. What is fallacious in such a definition is that it ignores the plain fact, evidenced on a

thousand pages of economic history, that government borrowing, or public debt, may be an anticipation not of taxes, but of a *levy on capital*, direct or indirect, or of *a grand larceny*. The intent of the public as borrower, it is true, is not often fraudulent, though there are unfortunately instances of this. In such a swindling operation, the lender is immediately and personally cheated. But the greatest part of borrowing on public credit is done by those who are as ingenuous in their views of the ability and willingness of posterity to pay for dead horses, as are the lenders. David Hume remarked on this simplicity when he said: "So great dupes are the generality of mankind, that, notwithstanding such a violent shock to public credit as a voluntary bankruptcy in England would occasion, it would not probably be long ere credit would again revive in as flourishing a condition as before."

Dupes is an ugly word: I do not know that it is well earned by those who credit government with a singular responsbility and ethical sense. However that may be, the history of public borrowing since the period when this was written by Hume, indicates that the philosopher was entirely correct. Hardly more than seventy years from the time John Law ruined every creditor of France with his wild paper-money scheme, the same trick was worked all over again from another and quainter angle, and a new set of creditors impoverished. The seeking of surplus for investment seems directed by blind necessity in economy, which can only be compared with the sexual instinct in the animal world. Perhaps there is nothing we can do about it. But at least we need not go on deceiving ourselves about the facts.

If, indeed, public debts were "in reality nothing but antici-

pated taxes," which would mean that posterity did pay all the debts to which it falls heir, the fact would be signalized by the phenomenon of the appearance of a generation which did no public borrowing, being sensible of the fact that its accumulation of debt was all it could handle. No such phenomenon being existent, we conclude that something happens, at intervals, that lifts the load of credit and permits a fresh start to be made. And it is clear what happens. In creating gigantic public debt, the conditions are also created, at the very moment, for the violent extinguishment of that debt. The selfsame circumstances which convince the public, as borrower, that the debt-load is not too large, are contriving to produce a situation where no possibly collectible taxes will suffice to service it.

It is easy enough to see how this works out in the case of the individual. In a boom period like that of 1922-29, private persons ran into debt to an extent which would have seemed madness even to themselves in another and soberer period. Well, this very rage was part and parcel of the situation that resulted in their bankruptcy and a general panic and depression. If it be true of the individual, it must be more true of government, for there the honor pledged is a vague and fragile thing, where no single person feels more than a fractional responsibility, and where the expenditures of vast sums are by deputy from a sprawling control.

The "public debt" of France—really a *crown* debt, of course—which existed when the Duke of Orléans became Regent, was practically wiped out in the flood of paper money poured upon that country by John Law and his associates. When the Prince of Conti sent his wagons full of paper into Quin-

campoix Street and hauled away silver in exchange, the game was up. A sarcastic ditty sung in the streets of Paris in 1720 will seem wonderfully apt to Americans who witnessed the collapse of our own debt-madness in 1929:

> On Monday I bought share on share;
> On Tuesday I was a millionaire;
> On Wednesday took a grand abode;
> On Thursday in my carriage rode;
> On Friday drove to the Opera ball;
> On Saturday came to the pauper's hall.

The holders of public credit were, of course, ruined in the rout of the exchange: but posterity? Did posterity pay the debts that had blithely been accumulated for them? There was little to pay. Bankruptcy had kindly erased them.

Seventy years afterwards, however, a demagogue was able to rise in the French Parliament and thunder a plan "to liquidate the national debt of *twenty-four hundred millions*." Very modestly this gentleman, named Gouy, referred to his scheme as "grand, simple, magnificent." What was the operation? Simple indeed. It was to have the government emit twenty-four hundred millions in legal-tender notes, accompanied by a law that specie should not be used in the purchase of the national lands which had been wrested from the Church. "This discourse," reported the newspapers of the period, "was loudly applauded."

If the grand, simple and magnificent plan of M. Gouy was loudly applauded by his contemporaries, it should mean nothing less than a monument to him built by a grateful posterity, because that sort of talk led directly to the cloudburst of *assignats* turned loose on the new republic by Mirabeau and

his assistants. And this in turn led to the violent extinguishment of twenty-nine thirtieths of the public debt. In other words, the debt that posterity was supposed to pay, or service, was, at the moment of Gouy's inspirational speech, 2,400,000 livres. The debt which posterity really had to meet was 80,000,000. Somebody suffered a loss, but not posterity in the sense of a general public composed of taxable grandsons of prodigal grandfathers.

Without going too far abroad for our illustrations, let us consider our own American financial experience in public borrowing. The story is too long and too involved to permit more than mention of a few instances. The early colonial financial operations, as every student of American history knows, were more or less of a nightmare. Much is to be forgiven the forefathers: they labored in a new country under hard disadvantages, and pioneering finance is never sound finance. The men at the helm for the most part meant to be utterly honest, but there was great poverty and deprivation, and taxes were difficult to find.

But let us see the thing candidly, reserving judgment as to the moral issue. In 1690, the Colony of Massachusetts issued paper money to pay the charges of the ill-fated expedition of Sir William Phipps. There was an over-issue, with the inevitable depreciation; but by prompt action the excess paper was somehow redeemed, and the notes apparently brought to face value. But the paper, though it survived for a number of years because of the increasing population and wealth, could not bear the impact of the second expedition against Canada in 1710.

Now this paper represented a charge upon posterity no less

than as if it had been interest-bearing certificates. Let us see what posterity had to pay. Dr. Richard Price, an eighteenth-century economist, has depicted in a single graphic sentence the story of irredeemable paper currency. "Paper money," he said, "having only a local and imaginary value, can bear no alarm. It shrinks at every approach of danger. Suspicion subverts it, *and when it falls, it gives no warning, but falls at once.*" I have italicized this because it is a peculiar habit of the paper-money sickness that the patient appears for a long time to be not only in good health, but actually flourishing. He goes out some fine morning and falls dead in the street.

This is what happened in the Colony of Massachusetts. The money, when it began to slip, soon became a chaotic welter, and brought on a prostration that lasted nearly forty years. Posterity, however, won another skirmish. The debt which it had been planned that the newer generations of colonials should pay, was bought in at the ratio of one to eleven: one dollar in silver for eleven dollars of paper. When that paper was burned, it was precisely like the joyous burning of the church mortgage, if that is ever done nowadays. The paper was part of the public debt intended to be breezed along to posterity.

Another example out of our own history is rather distasteful, but perhaps it is just as well that we should be candid in the matter of national honor as expressed in public debt. Every country has sometime repudiated, even England, though it is only fair to say that England's record as to obligations, up to the present muddy period of Great-War debt, has been excellent. The default in the period of James II was internal

and partial, and the amount involved was not, after all, very great.

But consider an external debt contracted by the Americans when they were fighting for their independence. In 1776, or thereabout, Silas Deane, one of the colonial commissioners to France, wrote to the secret committee of Congress these words: "I should never have succeeded in fulfilling my mission here without the indefatigable, intelligent and generous efforts of M. de Beaumarchais. The United States are more indebted to him, on every account, than to any other person on this side of the ocean."

This Caron de Beaumarchais, son of a clockmaker and author of *The Marriage of Figaro,* seems indeed to have been a real friend to the colonials in their need. Beaumarchais was pleading the cause of America at the French court with all his vigor and address. By his efforts, supplies to the amount of millions were forwarded to the embattled farmers, and when the war ended, Silas Deane announced that the young empire, freed of its chains, was indebted to Beaumarchais in the sum of "about" two and a half million francs. In the natural course of events, this would be a charge on the posterity of the new American government, for the government at the moment required all its ready money. But it was a charge that freemen, the posterity of self-freed men, might not only be willing but eager to pay. Did they pay it? Let us see.

Friendships made in war are brittle. They are like any other alliances cemented at a gathering where the refreshments are mostly intoxicant. While the war lasts, the allies cheer each other, play each other's anthems, and utter profuse oratory about undying affection: in the cold gray dawn of expense as-

sessment, sourness and suspicion develop, and there is talk about motives. So it proved in the case of Beaumarchais. In 1793 Alexander Hamilton fixed the sum owed by the triumphant American democracy to the French sympathizer at 2,280,000 francs. After wrangling about it for a long time, Congress made a business man's offer, in 1835, of 800,000 francs, take it or leave it. Some ardent mathematical spirit figured in 1932 that if the money Silas Deane admitted in 1781 was due, should carry an accumulated interest at 5 per cent, posterity (meaning this present generation) would owe the Beaumarchais family about a billion dollars. But we (posterity) are not paying the Beaumarchais family. The theory has encountered violence. We are incurring a few expenses for *our* posterity.

While American posterity has a rather good record in the matter of meeting the federal debts, having been the only country during the nineteenth century to make real progress in sinking its public obligations, the same cannot be said for the lesser units of government comprised within the nation.

In 1873 the British were the great creditor nation of the world, and remained so till the World War of 1914 placed that rather doubtful mantle upon the shoulders of the Americans. Being the greatest creditors, the British were naturally the greatest mortgagees of a great variety of posterities of all colors, races and religions. In the year the Corporation of Foreign Bondholders was chartered in London, for the purpose of wheedling or bullying something out of those posterities that were supposed to tax themselves to meet the debts of the fathers who had "borrowed in anticipation"—in that year a sad survey showed that about 60 per cent of all the foreign

bonds held in Great Britain were in default. Of the total amount the American states of Virginia, Indiana, Georgia, Florida, North Carolina, Tennessee, Alabama, Mississippi, Louisiana, Arkansas, and several others were owing great sums of money which a rebellious posterity was loath to pay. There had been other American states in the same position before, in respect of their British creditors, but Pennsylvania and Illinois liquidated their obligations in a satisfactory if not complete way. Most of the money had not been borrowed for the direct use of the state governments, but was in the form of guaranties of railroad developments or banking institutions; however, the effect was the same, for the honor and faith of these sovereign states was pledged in every case. In other words, the creditors were promised that posterity would pay.

In the case of Mississippi, posterity was so far from taxing itself to pay the debts of the forefathers that even after the Supreme Court of the state declared that the debts were valid and that honor required their payment, the legislature made it almost a fanatical article of a new Constitution that these debts should not be paid. It was said that the money had been wasted by the politicians who borrowed it. "But we lent it to you in good faith," replied the creditors. "Maybe you did," was the callous reply of posterity, "and let it be a lesson to you. Don't lend any more money to people like our progenitors, who talk rashly about their posterity paying the bills."

It must be distinctly understood that the state debts of which I am speaking are not the "carpet-bag" debts incurred by the Southern state governments after the Civil War. Those were dishonest borrowings and harebrained lendings, and no doubt the speculators deserved to lose. I am speaking of debts

incurred long before the Civil War, when the country was in the heat of the great development of its frontiers; and the borrowing was done in Europe after such statesmen as Daniel Webster had solemnly stated to the lenders that it was "unthinkable that any American state would repudiate its obligations." Daniel Webster meant well, but he did not reckon with posterity. He was victimized by that curious "non-violence" fallacy.

The unlucky European bondholders of the defaulting American states will frankly say that because a century has passed since the defaults took place, it is impossible to arrive at exact figures of their losses. Nor is there the slightest expectation that the debts can ever be collected. The Federal Constitution protects the states from suit by foreigners; and moral suasion must be used when memories are much fresher than these. The total amount which posterity in eight Southern states has avoided paying is about $75,000,000 of principal and some $250,000,000 of interest. The creditors would be glad to forget the interest if they could get the principal.

Posterity erases its external debts by repudiation. In 1917 the de facto government of Russia furnished the world with a classic example of what a determined posterity can do in this line. On one day it was indebted *to the people of France alone* in the sum of 6,738,000,000 gold francs. On the following day it owed nobody in the world a kopeck.

On the other hand, internal debts are abolished by inflation, by juggling the currency standard, or by a cool levy on capital; which is to say, by a redistribution of the country's wealth.

Consider the Dr. Stroof Endowment of the University of Frankfort, in Germany, and then realize how posterity can

lighten its burden! According to the will of this benefactor, a large sum of money was to be turned over to the university for the purpose of fostering research.

Although Dr. Stroof died early in 1921, the first payment was not made until 1922. The payment was in the form of Reich Treasury notes (one form of obligation upon posterity). These had a face value of 1,000,000 marks, but paper inflation had begun to bite, and the gold value was only 25,000. The gold value of the payments became smaller on payment after payment. On April 12, 1923, Prussian state bonds to the face value of 45,000 marks were paid over, and these were worth 86 marks in gold. In July, 1923, more securities, with a face of 171,000 marks, realized just 2.6 marks gold value. The final payment to the university was made in December, 1923. The face value of the securities paid over was 3,250,000 marks. The gold value was (do not smile!) 0.000,000,038 of a mark.

The sum total of the Dr. Stroof bequest was, in face value, 7,821,000 marks. As the earlier payments had declined in value along with the mark, the sum total in gold value received by the university was, in terms of American money at that time, *less than one cent.* In other words, posterity declined flatly to have anything to do with the obligations which had been embraced in the Stroof bequest.

When the astrologers of France were every year foretelling the death of Henry IV, that monarch drily remarked: "These fellows will sooner or later be right about it."

As to the date when any given posterity will decide to abolish any given obligations, no one ever can say. But we may safely take our stand with King Henry.

A LETTER

To C. E. Gray,
San Francisco, California.

My dear Gray:

I know no man in the world of commerce, other than yourself, to whom I can with so great confidence submit these pages, the result of my inquiry into the pathological aspects of Debt. Your attainments in the field of scientific research and invention would alone insure me that my findings would be judged with dispassionate and methodical sincerity. But to those abilities you add others that are ideal for my purpose. You have long been the guiding spirit of a great business organization which has made daily use of the properties of Credit, both as borrower and lender, as debtor and creditor. In a quarter-century of this experience, you have observed all that any business man could observe of the benefits and catastrophes incident to the employment of capital at interest. Finally, the nature of your business is such that you are in the closest possible contact with the agricultural producer on one hand, and the ultimate consumer on the other. You thus have a perfect position from which to ascertain what Debt is capable of doing to both.

I should be something less than frank, my dear Gray, if I were to make it appear in this letter that I do not at all guess your mind in this matter of Debt. On the contrary, it is true that, long before I began this research, my conversations with

you invariably left me stimulated in the direction of an inquiry which would clarify that great muddy pool of Credit into which the average man stares so helplessly—a pool so studiously made more opaque by the stirrings of the economists, and by the deliberate will of those whose profits depend upon a general clouding of the fundamental principles involved. For these principles ARE *so simple that only a fool could fail to understand them, were it not for the fact that they have been swathed in a multiplicity of exterior practises and rules and assumptions, which finally appear to be intrinsic, though they are not so. The child is greatly mystified and bemused by the passes and contortions and the patter of the magician; being quite innocent that these artifices are concealing the very simple fact that the magician has palmed the coin, or had put into the hat the rabbit which he intends to take out of the hat.*

I say the fundamental principles governing the use of Debt are simple. How can it be denied? What mature person is there, who should find it difficult to understand that when he borrows money or goods, he is entering upon a contract; that in a contract the promisor has curtailed his freedom of action; that Credit and Debt are the same thing under two different names; that the distress of an unfortunate debtor is of no real importance to the state; that it is of paramount importance to the state that contracts should be justly and promptly performed; that if wealth is mortgaged faster than it is being produced, the end must be a repudiation of contracts and a deflation of debt? All this is elementary, and should be within the grasp of an adult. But once introduce the notion that in contracting a debt, the debtor has THEREBY *added something to his own or to the community's wealth, and you have created*

a labyrinth into which a million optimists are eager to flock, but out of which most of them will stumble, sooner or later, disillusioned, seedy and sullen.

Nor should it be difficult to realize the dangers—I should rather say, the folly—of continuously mortgaging EXPECTED *wealth. Cannot a plain man understand that: (1) if the expected production is tardy, incomplete, or insufficient, the creditor will fly to the security of his bond; and that (2) if the expected production fails, lender as well as borrower may lose; and that (3) if a mountain of such contracts is pledged against what proves, through human frailty or act of God, to be a mole-hill of produced wealth, a wholesale panic, depression and civil disruption will be the implacable result?*

Very easily understood, you will say! Yes; too easily understood, perhaps, to suit the purposes of those who expect to profit in obscurities. So, it becomes desirable to stir the mud a little. Let us call debt, CREDIT. *Let us speak of* MONEY *as though it were something valuable in itself. Let us call those who lend money to banks,* DEPOSITORS. *Let us talk about the* PUBLIC CREDIT, *as though it were spending power possessed by a government, having nothing to do with taxation. Let us call common stocks* SECURITIES. *Call corporation notes, unbacked by anything except hope of profit,* DEBENTURE BONDS. *Speak of debts as* COMMITMENTS. *By these, and by similar devices, you will finally create such a vast perplexity in the mind of the average man, concerning the very simple fact of borrowing, that he will finally come to regard himself rich exactly to the extent that he can go into debt. Stir up the mud; make it thick and slab. But pray let us not afterwards complain of the inevitable compensation: which will be that*

both debtor and creditor must sooner or later pitch headlong into the same gutter.

Well, my friend, you and I discussed these matters long before the Arctic blast cut down the tender fronds of our tropical prosperity in 1929. And so I know that, though there must be some things in this book with which you cannot readily agree, and in some respects you may conclude that I have been too eager, too passionate, or too easily satisfied; yet as to my diagnosis as a whole, I feel that I shall have your sympathy and your consent.

For this IS *a diagnosis. And here, again, I turn to you with much faith. From the very moment I began upon this work, I felt that I should have to meet, sooner or later, the question: "Well, suppose everything you say about Debt is true: what then? What do you propose to do about it? What do you expect me, the reader, to do about it? Have you a cure? Have you a program? Do you want a law about it? Can you say anything* CONSTRUCTIVE*?"*

Ah, how I tremble at that word, CONSTRUCTIVE! *It is at once so convincing, so damning! Behind it, all the worst marplots and bunglers of the world have taken refuge. A gangster government like that of Caligula, running the Roman people ragged with crazed excesses, undoubtedly retorted upon the critics that they should either say something* CONSTRUCTIVE *or hold their tongues. It is quite useless, of course, to retort that the most constructive thing that could happen would be for the bungler to stop his nonsense, and (if he would be so kind) even to go away into a corner and blow out his fool brains.*

We must not put too much faith in people who have what

they call constructive policies. What is usually called a constructive policy is only a new kind of activity that the proponent admires very much. Whether it is constructive or not will remain for the future to show, and for others to pay for.

You have already told me, many times, how much importance you attach to skilful diagnosis in dealing with the many perplexing situations that arise in your business. And I remember your story of the great surgeon you once met on a railway train, and of your inquiry of him, "whether the advance in the science of bacteriology had not been of the greatest importance in modern surgery," and of his reply, which came to satisfy you when you had considered it:

"No, I think the principal factor now, as always, is correct diagnosis."

This gives me courage; for all that I could pretend to do in this book is to give a reasonably accurate diagnosis, based on patient study of historical facts, of the economic sickness which has made this a limping, even a bedridden world. I say that until such a diagnosis is made and commonly apprehended, it is quite useless, and probably mischievous, to spend vast sums of money—and the time and energy of patient men and women—upon experiments that deal with what are really secondary manifestations of a primary toxic condition. I am convinced that this is the sorry blunder that is being committed, not only in the United States, but in many other countries; and the tragedy of it is that so much real benevolence and good intent and noble aspiration are dissipated in the process.

How clear it is, in the region of agriculture with which you are so familiar, that an attempt by government to deal with a secondary manifestation, instead of the primary cause, will not

only fail ultimately to cure that manifestation, but will send the economic poison streaming into parts which were before unaffected!

It is not that there are not men, even in the government circles, who know perfectly well what are the primary lesions of American agriculture. It is no secret that the American farmer is suffering from debt-poisoning. His malady is one of devouring financial obligations, from which there is no emergence that one can now foresee, save the dangerous and destructive annulment of solemn contracts. This condition does not date from yesterday. It does not date from 1928 or 1929. In fifteen corn and wheat states, in the year 1925, almost 4 per cent of the farmers had lost their farms through foreclosure or bankruptcy, nearly 4½ per cent had turned over their holdings to their creditors without legal process; and in addition to this 8½ per cent of dispossessions, 14½ per cent were bankrupt, but continuing upon the properties by permission of the creditors. This was in a year of notable prosperity—or what was taken to be prosperity, though we may now have our doubts about it. What wonder that, seven years later, this country was witnessing the unparalleled outrage of murderous assaults by farmers upon the agents of the law who had attempted to effect tax-sales and foreclosure-sales according to law?

I repeat that the true cause of agricultural distress is quite well known within the circles of government. To proclaim, however, that the true cause is debt, and thereby to make manifest that there is a cancerous quality pervading the entire debt structure, is more than any political or business administration dares or even desires to do. To say that the farmer's woes are

due to his mortgaging his expected production of wealth would be to intimate that there is an equivalent danger in the consumer's mortgaging of his expected income; and as we are operating an industrial machine based upon sales and credit, the implications of such a confession are enough to appall men braver and more honest than political straddlers and mountebanks. The farmer, once protected by his ability to move to fresher and cheaper lands; by the constant rise in land values, enabling him to cancel his indebtedness through increment; by the export position of his country as a whole; and by his attitude that farming, after all, was as much a means of subsistence as a business—now finds himself engaged in an industry not much dissimilar to any other industry, except in one particular: that agriculture by its very nature can endure least of any the ceaseless demand of compound interest. Very clearly you see these things, my dear Gray, for you are in daily contact with every manifestation of them.

Concerning the alarming proportions and the steadily mounting aggregate of the public debt of the United States, you have heard, and no doubt been mystified by, the comment that "several bankers have told us [the government] that the country can stand a debt of fifty, even seventy billions of dollars." I am not aware that the names of the cheerful bankers have been made public. Perhaps the communication was confidential; perhaps bankers have become diffident.

Now, there are many kinds of bankers, just as there are many kinds of preachers, and doctors, and lawyers. Some of them think before they lend; some of them think after they lend; some of them miraculously seem to subsist without any ratiocinative process at all. Some of them are worthy, sound,

stewardlike managers of borrowed money; some of them would fittingly decorate the interior of a federal prison, where they would undoubtedly reside, were it not for the unusual honor paid in a democracy to the skill that dishonors faith in a magnificent way. It is no secret that the vast losses of deposit money, which in the past six years have nearly wrecked several of the largest banks in the country, were the result not merely of incredible stupidity, but of malfeasance and fraud. So it would be agreeable to know, before arriving at a judgment, the identity of these optimists of the public debt.

Besides, when one talks of the amount of debt that a country can STAND, *it is necessary to explain what one means by* STAND. *A human being may stand a considerable amount of arsenic, of amputation, of debauchery, or what you will. If you fix your mind merely upon the punishment the human body can endure and still remain alive, you will be amazed. This is equally true of a body politic. If, then, the statement mean that the United States can* SERVICE *a debt of fifty or seventy billions of dollars, the answer is that it undoubtedly could. It would mean oppressive taxation, it would mean disastrous competition between government and industry for the use of capital, it would mean a rise in the interest rate upon government loans that could, considering their already loaded condition, embarrass the banks by reducing their book assets: but it is a debt that could be serviced.*

If the statement mean that the country could expect any settled condition, either politically or economically, or that the present standard of living for the employed man could be maintained, the answer is NO. *But in fact it is only too clear, in the light of what the past six years have taught, that before*

the debt reached seventy billions, or fifty, the whole question of public credit would be thrown into the political arena, and a finish fight between creditor and debtor classes would be on. These struggles, of which history records numerous examples, are the most dangerous that nations have to face. They are—and the word need not be glossed—revolutions. The legislative redistribution of wealth must necessarily impoverish any existing middle class.

Finally, if the statement mean that such a debt could be paid off—EXTINGUISHED, *the economists say—one can only smile apprehensively. To imagine the extinguishment of such a debt, even if a Spartan resolution toward government economy became a passion, would be to conjecture an economic condition where incomes were greatly increased, but not prices; where everybody spent more, but thrift was magnified; where machinery was greatly multiplied and speeded, but unemployment did not result; above all, where the balance between the exchange of labor for labor became almost mathematically perfect. If you are capable of imagining all that, why stop there? Why not imagine Paradise; which, after all, would be a more fruitful exercise for the soul?*

You may say that I have been severe upon the greater number of that body of men who style themselves, with more or less precision, "political economists." I own I have. Yet do not think I regard them as either fools or men of malice. Where they are teachers, I do not doubt that most of them are sincere, patient, and laudably inspired. Where they leave the professorial chairs and associate themselves with active promotional interests, the validity of their conclusions must necessarily come under suspicion, though not necessarily their mo-

tives. As for the locust army of commercial scribblers and gabblers, styling themselves economists but in fact merely salesmen of doubtful wares, we need not consider them. They are merely despicable.

Finally, you will turn from these pages to look upon a turbulent, frustrated, angry and demoralized world, where the only certainty we have left to us seems to be the assurance that whatever is about to happen next will prove to be unpleasant. For these jostlings of nations, these war clamors, these spiteful jealousies of class against class, these shocking failures of men in government and of government in men, the material distress and moral tawdriness, the decline of true culture and even of common decencies—for all these sorry conditions there is, of course, no one cause, not even one isolated set of causes. But I shall ask you to tell me in frankness whether you do not think, with me, after considering the evidences I have presented, that the natural repercussions of Debt upon character and attitudes, upon passions and political condition, upon morals and law, as well as upon the purely economic welfare of men, could produce IN SOME DEGREE *all the painful manifestations that pitilessly hedge us in?*

Yours sincerely,

FREEMAN TILDEN.

Warner, New Hampshire
10 May, 1936